

1 IN THE SUPREME COURT OF THE UNITED STATES

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3 EBAY INC., ET AL., :

4 Petitioners :

5 v. : No. 05-130

6 MERCEXCHANGE, L.L.C. :

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8 Washington, D.C.

9 Wednesday, March 29, 2006

10 The above-entitled matter came on for oral

11 argument before the Supreme Court of the United States

12 at 11:31 a.m.

13 APPEARANCES:

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15 of the Petitioners.

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17 General, Department of Justice, Washington, D.C.;

18 on behalf of the United States, as amicus curiae,

19 supporting the Respondent.

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21 the Respondent.

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1	C O N T E N T S	
2	ORAL ARGUMENT OF	PAGE
3	CARTER G. PHILLIPS, ESQ.	
4	On behalf of the Petitioners	3
5	JEFFREY P. MINEAR, ESQ.	
6	On behalf of the United States,	
7	as amicus curiae, supporting the Respondent	26
8	SETH P. WAXMAN, ESQ.	
9	On behalf of the Respondent	37
10	REBUTTAL ARGUMENT OF	
11	CARTER G. PHILLIPS, ESQ.	
12	On behalf of the Petitioners	53
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

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P R O C E E D I N G S

(11:31 a.m.)

CHIEF JUSTICE ROBERTS: We'll hear argument
next in eBay v. MercExchange.

Mr. Phillips.

ORAL ARGUMENT OF CARTER G. PHILLIPS

ON BEHALF OF THE PETITIONERS

MR. PHILLIPS: Thank you, Mr. Chief Justice,
and may it please the Court:

The fundamental question that's posed in this
particular case is whether or not the court of appeals
by adopting a rule that declares categorically that
three out of the four traditional factors for deciding
whether or not to grant permanent injunctive relief
will be irrebuttably presumed to be satisfied whenever
a jury has found that a patent is valid and has been
infringed.

The rule in the Federal Circuit for at least
20 years has been that if you have validity and
infringement decided by the jury, that then there is
irrebuttable finding of -- of irreparable injury, of
inadequate remedy at law, and that the balance of harms
decidedly favors the plaintiff, and that the only issue
that remains available to the defendant in that
circumstance is a heightened scrutiny on the standard

1 of whether or not the -- the public interest commands
2 that an injunction be denied in a particular case. And
3 even in that context, the Federal Circuit's rule is
4 extraordinarily stringent because not just any public
5 interest can -- will satisfy, but instead, it has to be
6 a public interest that endangers the public health.

7 JUSTICE GINSBURG: Is that all in Judge
8 Bryson's decision? I certainly didn't see it there.

9 MR. PHILLIPS: That -- that is precise -- I
10 think it's the only way to read Judge Bryson's
11 decision, Justice Ginsburg, where the court says, at
12 page 26a, that a permanent injunction will issue once
13 infringement and validity have been adjudged, and then
14 say, to be sure, it will not be so to protect the
15 public interest. And we all know the traditional rule
16 with respect to the grant of injunctive relief is that
17 it's a four-factor test.

18 JUSTICE GINSBURG: I didn't see anything
19 about irrebuttable presumption.

20 MR. PHILLIPS: Well, the point is that if an
21 injunction follows with a finding of -- of validity and
22 infringement, then that means that there has to be --
23 there has to be irreparable injury, inadequate remedy
24 at law, and that the balance of hardships has to tilt
25 in -- in favor of the plaintiff. And then the only

1 issue that remains is whether or not the public
2 interest justifies not granting an injunction under the
3 circumstances of this case. It seems to me there's no
4 other way to read that.

5 And if you read it in the context of the --
6 of the previous 20 years of decisions from the Federal
7 Circuit, it is absolutely clear. We don't have the
8 opportunity to come back as a defendant in an
9 infringement action and say, Your Honor, in the
10 specific facts of this case, this is someone for whom
11 money damages is a completely adequate remedy.

12 And -- and it seems to me quite clear that
13 section 283 is designed to be exactly the opposite of
14 the way the Federal Circuit has interpreted this --
15 this scheme. Section 283 says explicitly -- and this
16 is at page 1 of the blue brief -- district courts,
17 quote, may -- not shall -- grant injunctions in
18 accordance with principles of equity. And principles
19 of equity, as Justice Story said almost 200 years ago,
20 systematically reject the idea that you will act on a
21 categorical basis in deciding whether or not to grant
22 or withdraw the injunctive relief in -- in particular
23 circumstances. And to the contrary, you have to look
24 at each specific issue.

25 And in that regard --

1 JUSTICE SCALIA: Is -- is that so with --
2 with respect to someone else's use of -- of your
3 property? It seems to me very rare where -- where
4 someone takes your property, that the court wouldn't --
5 wouldn't give you the property back and -- and simply
6 say, you know -- I can think of a few extraordinary
7 examples. If somebody makes a statue out of stolen
8 gold, you know, the -- the old classic, I guess you'd
9 get the money back. But ordinarily we're talking about
10 a property right here, and -- and the property right is
11 -- is explicitly the right to exclude others from --
12 from use of that. That's what the patent right is.
13 And all he's asking for is give me my property back.

14 MR. PHILLIPS: Right. And -- and Congress
15 already made the -- the balance, Justice Scalia, with
16 respect to that because Congress obviously identified
17 the property right as the right to exclude. And then
18 Congress did not confer upon the district courts no
19 discretion to act in -- in a situation where the
20 property right has been violated. Instead, Congress
21 expressly adopts in 283 a very broad grant of equitable
22 discretion. To be sure, in the ordinary case, you --
23 you very well may have irreparable injury proved, but
24 the question is, do you -- do you eliminate any inquiry
25 and any specific facts of the case and instead not only

1 presume it, which I think is a mistake, although the
2 district court did that and found that in this case the
3 presumption was rebutted, but to -- but to say
4 irrebuttably it's presumed that you have irreparable
5 injury, irrebuttably presumed that you don't have an
6 adequate remedy at law, and irrebuttably presume that
7 the balance of equities tilt in favor of the plaintiff.
8 And that, it seems to me, cannot be squared with the
9 language of the statute.

10 And, indeed, on that score, the United States
11 sort of magically ends up on our side of the -- of the
12 table because the United States says the same thing.
13 There is no way --

14 JUSTICE BREYER: On Justice Scalia's
15 question, I was trying to think of some, and I was
16 trying to think the analogy might -- you might find
17 some analogy in the public utilities field, the -- or a
18 ferris wheel or something. What you want is a person
19 who uses his property not at all himself, but licensed
20 the public generally. And now would a -- would a court
21 issue an injunction there? And as I think about that,
22 I don't realize I don't know the answer.

23 MR. PHILLIPS: I don't know of any. I mean,
24 I certainly wouldn't categorically declare that you
25 have to I guess is the way I would respond to that.

1 JUSTICE BREYER: Yes, that's what -- I mean,
2 that -- that's what you're trying to analogize this
3 case to, I guess, is a person who licenses others to
4 use his property and never uses it himself.

5 MR. PHILLIPS: That's precisely what this
6 case involves.

7 JUSTICE BREYER: And there, I don't know how
8 courts do normally act in other areas of property law.

9 MR. PHILLIPS: Well, I don't know that there
10 are a whole lot of them like that, but the one thing
11 that -- I mean, there are two things to think about the
12 property concept in the statute.

13 First of all, Congress does not declare that
14 the property interest here is a real property interest,
15 which traditionally has been protected differently.
16 It's a personal property interest, which is
17 traditionally given -- accorded less protection under
18 this kind of a scheme. And so there -- and -- and
19 again, Congress in any event struck the balance. It
20 didn't say, as it could have, that there is presumed --
21 there's a presumption that we have an injunction. It
22 didn't say, as it could have, that we shall have a --
23 shall have either a presumption or an injunction in any
24 particular case. And so under the statutory scheme
25 here, it seems to --

1 CHIEF JUSTICE ROBERTS: Well, but -- but the
2 exercise of discretion is channeled over time, as -- as
3 judges apply it in -- in similar cases. You're not
4 suggesting that in a typical run-of-the-mine patent
5 case, no special considerations, it would be wrong to
6 say that in those cases you typically would grant an
7 injunction?

8 MR. PHILLIPS: I think in those cases, the
9 irreparable injury and the inadequacy of the remedy at
10 law will be -- will be easy to demonstrate, as they
11 have been for hundreds of years.

12 The -- the fundamental difference -- this is
13 important to have this in mind. The Federal Circuit
14 adopted this rule of law some 20 years ago. That's
15 before the high-tech boom, before the explosion in the
16 number of patents. And so the opportunity to deal with
17 these issues on an individualized basis that might give
18 rise to some kinds of rules that you could, in fact,
19 apply to the generality of cases based on an experience
20 has never been there. We have been dealing with an
21 irrebuttable presumption for 20 years in a way that has
22 -- has completely stultified the ability to develop any
23 of those kinds of rules.

24 And what we're asking this Court to do at
25 this point is to say, no, enough is enough. We need to

1 go back to a time where the -- go back to the language
2 of the statute, confer the discretion on the district
3 courts.

4 And it's important not just for a case like
5 this one, but it -- but it distorts tremendously the
6 settlement value and the process and the relationship
7 between the patent holder and all of the potential
8 licensees because we're in a -- in a world -- and I
9 don't think the Court can ignore this because it's in
10 the amicus briefs. We're in a world where if a patent
11 holder files a lawsuit in Marshall, Texas, no patent
12 has ever been declared invalid in that jurisdiction,
13 and no patent has ever been found not to infringe.
14 And then you take that finding automatically and you
15 turn it into an injunction. Any person who has been
16 threatened under those circumstances and told that
17 we're going to face a lawsuit in Marshall, Texas is
18 going to have a very different negotiating posture than
19 in a situation where --

20 JUSTICE SCALIA: You know, I mean, that's --
21 that's a problem with Marshall, Texas, not with the
22 patent law. I mean, maybe -- maybe we should remedy
23 that problem.

24 MR. PHILLIPS: Well, I hope you do.

25 JUSTICE SCALIA: But I don't think we should

1 write -- write our patent law because we have some
2 renegade jurisdictions.

3 Why -- why isn't the -- the free market
4 normally adequate to solve any problems you're talking
5 about? Everybody is in this for the money. Nobody is
6 going to hold off giving the license beyond the point
7 where -- where it makes financial sense.

8 MR. PHILLIPS: Well --

9 JUSTICE SCALIA: Why can't -- why can't we
10 let the market take care of the problem?

11 MR. PHILLIPS: Well, I think the -- the
12 market will take care of the problem. The question is
13 under what standards are you going to apply. Are you
14 going to say that there is no effective check on the
15 jury system, that it goes automatically from a jury's
16 finding to injunctive relief, or are you going to
17 implement it against the backdrop of what Congress
18 specifically provides, which is that the district
19 courts should exercise equitable discretion in deciding
20 how best to proceed.

21 JUSTICE GINSBURG: One of the problems with
22 the district court exercising equitable discretion
23 without a close review by the Federal Circuit is just
24 the thing that the Federal Circuit was created to
25 handle, that is, you get a tremendous disparity among

1 district judges. I don't know that it's only in
2 Marshall, Texas that you have a tilt in one direction
3 or in the other. So the Federal Circuit is put there
4 not to say that the district judges have no discretion,
5 but to try to rein it in somewhat so that you won't
6 have wide disparities, which you very well might have
7 if you just say discretion to the district judges and
8 very light review on appeal.

9 MR. PHILLIPS: But, Justice Ginsburg, the --
10 the problem with that is that that's not the scheme
11 that Congress created with respect to the remedial
12 aspects of -- of the patent laws. I mean, it is surely
13 the case that Congress meant, as -- as substantive
14 patent law is generally enforced and implemented, that
15 the Federal Circuit would play a significant role in
16 ensuring some kind of uniformity, but Congress didn't
17 then go the extra step and say, and when it comes time
18 to decide whether or not injunctive relief ought to be
19 granted, that it will -- that we will presume it or
20 that we will deal with it in a categorical way.
21 Congress granted that discretion to the district courts
22 and with good reason because district --

23 JUSTICE SCALIA: I think maybe you exaggerate
24 the -- the extent of equitable discretion. I mean, it
25 wasn't as though it's just left up to the judge, seems

1 like a good idea or not a good idea. There are a lot
2 of rules for when -- when you would give injunctive
3 relief and not. And -- and I -- you know, I'm not sure
4 you're going to get into the kind of wide-ranging
5 allowance that -- that you seem to be arguing for.

6 MR. PHILLIPS: Well, I don't know that I need
7 a wide-ranging allowance with respect to this. What I
8 need is elimination of the irrebuttable presumption
9 that doesn't allow any consideration of whether money
10 damages are adequate in a particular case.

11 And -- and here, it's very important to
12 focus. The -- the district judge didn't just say, I
13 woke up this morning and I felt really good about the
14 defendant, and therefore, I'm not granting an
15 injunction. The district court here said, I'm making
16 specific findings of fact with regard to the adequacy
17 of money damages to deal --

18 CHIEF JUSTICE ROBERTS: Well, but he said
19 other things too, and one thing he said is, I don't
20 like business method patents very much, and so I'm not
21 going to give an injunction here.

22 MR. PHILLIPS: Well, that's --

23 CHIEF JUSTICE ROBERTS: Do you think that was
24 proper or improper?

25 MR. PHILLIPS: That's -- that's not precisely

1 what he said, Mr. Chief Justice. What he said was that
2 business method patents stand on a somewhat different
3 footing because they're subject --

4 CHIEF JUSTICE ROBERTS: He said there's a
5 growing concern over the issuance of business method
6 patents.

7 MR. PHILLIPS: Right.

8 CHIEF JUSTICE ROBERTS: Is that an
9 appropriate consideration to take into account in
10 determining whether to grant an injunction or not?

11 MR. PHILLIPS: I think probably, at the end
12 of the day, it wouldn't be, but the bottom line is that
13 he did that in the context of analyzing the public
14 interest consideration and he said that didn't --

15 CHIEF JUSTICE ROBERTS: Well, then he went on
16 and he said --

17 MR. PHILLIPS: -- tilt in favor.

18 CHIEF JUSTICE ROBERTS: -- another -- another
19 consideration is that this patentee does not practice
20 its patents. But, I mean, isn't that just saying he's,
21 you know, the -- the guy in the garage and he's an
22 inventor and the way he's going to market his
23 discoveries is by getting some firm that basically
24 speculates on patents.

25 MR. PHILLIPS: Sure. And --

1 CHIEF JUSTICE ROBERTS: And if he's denying
2 that inventor, you know, the -- what he'd give to Bell
3 Labs -- or whatever Bell Labs is these days -- that
4 does practice the inventions --

5 MR. PHILLIPS: I should know that actually,
6 but --

7 (Laughter.)

8 MR. PHILLIPS: But, Mr. Chief Justice, I -- I
9 think you can -- it's -- it's not fair to pick apart
10 each one of his findings and say does that finding good
11 enough or is that finding enough.

12 The truth is the district court made a series
13 of four findings that overlap, and one of which was,
14 obviously, he doesn't -- he doesn't practice this
15 patent. He also doesn't effectively license. He's
16 willing to license his patent to eBay. He's willing to
17 license this patent to anybody under these
18 circumstances.

19 JUSTICE KENNEDY: Well, but --

20 MR. PHILLIPS: And candidly, most of the
21 licensing arrangements don't even exist, and they're --
22 I'm sorry, Justice Kennedy.

23 JUSTICE KENNEDY: Well, I'm -- I interrupted
24 you.

25 But the -- the business process point you

1 give away fairly quickly. I -- I thought that was
2 rather substantial. The whole point is, is that a
3 business process patent is -- is difficult to define
4 and could be very -- it can be very restrictive.

5 MR. PHILLIPS: I -- I think in -- in a proper
6 case -- and I don't think you do it under the --
7 under the public interest analysis. I think you'd
8 probably end up doing it under the balance of the
9 hardships. But in any event -- and -- and what you --
10 you know, obviously, this case is -- is more
11 complicated because --

12 JUSTICE KENNEDY: My concern is if you take
13 that away, I don't know if you've got a lot left for
14 the -- saying no injunction in this case.

15 MR. PHILLIPS: Well, I -- I mean, there's
16 plenty left because he doesn't practice this invention.
17 He has no intention of practicing this invention
18 beyond the receipt of money. Money damages are a
19 completely adequate remedy under these particular
20 circumstances, given -- given especially the fact that
21 if -- if the infringement continues -- and remember,
22 this is not a situation where he proposes to continue
23 to infringe. We propose to work around it, but if the
24 infringement continues, we're then subject to enhanced
25 damages and all of the deterrent power that that has,

1 plus the possibility, obviously, down the road that the
2 district court could, on a rule 54 motion, now come
3 back and say, well, no, now I've decided that
4 injunctive relief is warranted under these
5 circumstances.

6 JUSTICE GINSBURG: Well, isn't it a concern
7 that Congress didn't provide for compulsory licensing
8 which this seems to have a very strong resemblance to?

9 It says eBay wants to do this, so they're going to
10 have to pay for it, but the patentee can't stop them.
11 It just has -- in effect, has to license them to do it.

12 MR. PHILLIPS: But -- but we're not asking
13 for a compulsory license because it is not our
14 intention, going forward, to infringe this patent.
15 We've made it very clear to the district court and the
16 district court recognizes that we not only intend to
17 but have, in fact, implemented a design-around or a
18 work-around to this particular patent. And that's what
19 we expect will happen. So we're not asking for the
20 right to continue to infringe and a willingness to
21 pay as we go.

22 Our concern -- and this does go to the
23 business method patent because it does go to the -- to
24 the uncertainty. The problem we have here is we don't
25 know where the line is going to be drawn. That's why

1 the district court said specifically, you know, there's
2 going to be unending litigation on this because it's
3 very difficult to define the metes and bounds of this
4 particular patent, and we're going to have to fight
5 over that, so that the traditional reason for
6 injunctive relief, which is to bring peace, isn't
7 available in this case. We're not going to have peace
8 under these circumstances.

9 And when you have that situation and you have
10 the kind of uncertainty, not because of business method
11 patents generally -- that's -- that's where I was I
12 think probably giving up too much immediately. I don't
13 think the fact of a business method patent is per se a
14 problem, but I think analyzing the specific business
15 method patent and its uncertainty is a legitimate
16 consideration for the district court to take into
17 account in deciding whether or not, in a particular
18 circumstance, we are better off saying, pay the
19 plaintiff the money for the past injury, let's see how
20 the work-around develops, and take it into account, but
21 without the sort of --

22 JUSTICE KENNEDY: Well -- well, tell me how
23 -- how this works. It seems to me that an injunctive
24 hearing is -- might be the cheapest, most effective way
25 to -- to sort out whether there's going to be a

1 violation. You call the parties in and they indicate
2 what -- what they propose to do, and the judge says,
3 well, this is within it or it's without it. It's --
4 it's much cheaper than a -- a new lawsuit.

5 MR. PHILLIPS: Well, of course, the
6 consequences of the -- of the process are significantly
7 different because, obviously, the remedies for -- for
8 contempt are significantly more draconian than -- than
9 just a finding of a -- of a violation.

10 But more -- more important than that, Justice
11 Kennedy --

12 JUSTICE KENNEDY: Well, but this gives you
13 the advantage of coming in in advance saying, I want --
14 I -- I want a ruling in advance that I'm not going to
15 violate the injunction. You've got a cheap lawsuit.

16 MR. PHILLIPS: Well, and the reality is the
17 district court already looked at this and said that it
18 -- it is the district court's judgment that they're
19 going to require full infringement trials. I mean,
20 that was the finding it made with respect to the
21 balance of hardships. And -- and neither the court of
22 appeals nor the -- nor the Respondent in this case has
23 -- has challenged that particular finding. So the
24 reality is the district court has made the
25 determination that that's not -- that process is either

1 not available or not practical in the context of this
2 particular case, which of course, goes back to why it's
3 important to make sure that you look at each of these
4 cases on their individual facts rather than across the
5 board on a -- on these -- on an irrebuttable
6 presumption basis.

7 The -- the additional point that I think it's
8 important I at least spend a minute on, because the
9 Court asked for us to deal with Continental Paper Bag,
10 is that it does seem to me quite clear that, at least
11 at this stage, the parties are pretty much in sync,
12 that -- that the Court need not revisit Continental
13 Paper Bag. The holding in that case is actually almost
14 a sort of quintessential situation where you have two
15 participants in the market, one of whom would like to
16 take advantage of a patent that will improve that
17 participant's ability to produce a product. The patent
18 holder is not ready yet to develop that product using
19 that particular method and, therefore, sues to stop his
20 competitor from entering into that market. I mean,
21 that's the classic kind of situation where you have a
22 -- you know, where you -- where you've got the
23 potential infringer is looking at what's going on and
24 making a decision and copying it and then trying to
25 implement it. And the Court said, under those

1 circumstances, you get an injunction.

2 But here, of course, we're dealing with a
3 vastly different situation, as we -- as we point out
4 that -- in our brief, where the -- at page 9 where the
5 district court specifically found that not any of
6 eBay's success is attributable to anything in the
7 patents of the plaintiff in this case and that nothing
8 in the patents that were put forward by the plaintiff
9 in this case provide any basis on which anyone could
10 build a business model. So this is, to my mind, the
11 antithesis of the situation in Continental Paper Bag.

12 But in any event, the holding there is
13 clearly not implicated here. It's been codified by
14 Congress. There's no basis for the Court to reconsider
15 it.

16 To the extent that there is -- is dicta in
17 there that talks about the right to exclude, Justice
18 Scalia, I think, in general, the right to exclude is
19 one that you do, in fact, enforce with injunctive
20 relief in many cases, but the question here is whether
21 or not the Federal Circuit should have adopted a rule
22 that says you -- you enforce it in every case
23 irrebuttably as to three of the four factors, and as to
24 the fourth factor, you don't go any further than
25 requiring the plaintiff to show that there's a -- an

1 imminent public health crisis.

2 Under those circumstances, it seems to me the
3 Court should reverse the court of appeals. And,
4 indeed, if there were ever a case in which the Court
5 ought to uphold the district court on a -- under the
6 abuse of discretion standard, it is this case.

7 CHIEF JUSTICE ROBERTS: Why should we -- if I
8 can get back to one of the factors. Why should we draw
9 a distinction between the -- the sole inventor who
10 needs a patent speculation firm to market his discovery
11 and -- and somebody else? Why -- why should he lose
12 the leverage of the normal injunction and have
13 substituted for that a duel of experts over what a
14 reasonable royalty should be?

15 MR. PHILLIPS: Because the -- because
16 Congress didn't dictate that he gets that leverage in
17 every situation. And -- and it's quite possible that
18 the -- there are going to be a lot of situations. And
19 the Solicitor General's brief identifies four of them
20 in which an inventor, who doesn't plan to practice the
21 invention, engages in -- in various kinds of licensing
22 schemes that create all kinds of interrelationships
23 among the way the patent is going to be developed, and
24 I think all of those are perfectly legitimate and could
25 easily justify injunctive relief in precisely the kind

1 of case that you pose, Mr. Chief Justice. But that's
2 not this case.

3 CHIEF JUSTICE ROBERTS: Can I -- maybe I
4 don't understand what it means to practice the
5 invention. If -- if I -- does that -- if -- if I
6 invent something, you know, a new -- better way to make
7 a car engine work and I want to sell that to somebody,
8 that's -- you'd say that's not practicing the invention
9 because I don't build cars?

10 MR. PHILLIPS: Right. But again, you've
11 licensed it and there are certain rights that,
12 obviously, arise out of the licensing. None of these
13 factors is alone, I don't believe, sufficient to say
14 you don't get injunctive relief. But I think what the
15 district court said, and I think that this is why the
16 Court ought to affirm the district court's under --
17 under an abuse of discretion standard, which never been
18 applied to this case -- what the Court should say is,
19 look, and where you have no practicing of the invention
20 by the inventor, where you have a complete willingness
21 to license not only to the world, but also to eBay
22 specifically, and where you've never sought preliminary
23 injunctive relief, under all of those -- and where --
24 and where there's serious question about the lines to
25 be drawn, there's no benefit to be had by -- in the way

1 of trying to eliminate the amount of litigation on an
2 ongoing basis, under all of those circumstances, all of
3 which the district court identified, then it's not
4 appropriate to grant injunctive relief. We'll allow
5 enhanced damages in the interim and even the potential
6 down the road, obviously, of -- of an injunction to
7 serve as enough of a deterrent to protect the right to
8 exclude that the plaintiff has under the statute.

9 JUSTICE SCALIA: Why -- why does the fact
10 that -- that you're not practicing the invention make a
11 difference? I mean, why -- why should I be in better
12 shape, as far as getting an injunction is concerned, if
13 I produce an automobile engine and -- and make some
14 undeterminate profit --

15 MR. PHILLIPS: Right.

16 JUSTICE SCALIA: -- from the use of this
17 particular invention in the engine than I would be if I
18 licensed it with a royalty based upon the number of
19 sales of engines? I mean, they're both risking, you
20 know, the same future use of the -- of the device. Why
21 -- why does one situation justify an injunction more
22 than the other?

23 MR. PHILLIPS: Yes, I think -- I think I
24 ought to modify it slightly because it's not just
25 simply that you don't practice the invention. It's

1 that you're not in the market itself because that's --
2 that's the Continental Paper Bag case. You know, in
3 Continental Paper Bag, they don't want to -- they don't
4 want to practice the invention either because they want
5 to hold it back in order to be able effectively to use
6 it. If they had wanted to license it, that would have
7 made sense too.

8 But this is not a competitor in the market.
9 If they were a -- it seems to me you have a much better
10 claim to a need to occupy space. That's what the
11 injunction is trying to say. This is my space. I want
12 to occupy it. But if you choose not to occupy it, it's
13 not to say that you abandon your right to an
14 injunction, but that that ought to be a legitimate,
15 individualized consideration, among other
16 considerations --

17 JUSTICE SCALIA: By not occupying it, you
18 mean including not licensing it to somebody else.

19 MR. PHILLIPS: Well, if you didn't license it
20 -- and actually we have no relevant licenses here too
21 -- that would be another factor that ought to be --
22 that ought to count in the mix. Again, it's not -- I'm
23 not looking for a presumption the other way and I'm not
24 looking for categorical rules that say that if you --
25 if you're a nonperforming entity, that you don't get a

1 license, or even if you're a troll, as that term gets
2 bandied around, that you're never entitled to a -- to
3 an injunction.

4 JUSTICE KENNEDY: Well, is -- is the troll
5 the scary thing under the bridge, or is it a fishing
6 technique? I -- I want --

7 (Laughter.)

8 MR. PHILLIPS: For my clients, it's been the
9 scary thing under the bridge, but --

10 (Laughter.)

11 JUSTICE KENNEDY: I mean, is that what the
12 troll is?

13 MR. PHILLIPS: Yes, I believe that's the -- I
14 think that's what -- what it is, although you -- maybe
15 we should think of it more as Orks, now that we have a
16 new generation, but at this point troll is the word
17 that gets -- that gets used.

18 If there are no further questions, I'd like
19 to reserve the balance of my time, Your Honors.

20 CHIEF JUSTICE ROBERTS: Thank you, Mr.
21 Phillips.

22 Mr. Minear, we'll hear from you.

23 ORAL ARGUMENT OF JEFFREY P. MINEAR

24 ON BEHALF OF THE UNITED STATES,

25 AS AMICUS CURIAE, SUPPORTING THE RESPONDENT

1 MR. MINEAR: Thank you, Mr. Chief Justice,
2 and may it please the Court:

3 The United States submits that the right to a
4 patent is an important matter, but it must be
5 considered in the context of the remedies as well.

6 And the United States further submits the
7 patentee's right to an injunction should be covered by
8 the familiar four-factor test this Court has applied in
9 cases such as Weinberger v. Romero-Barcelo. This
10 Court's express endorsement of the four-factor test
11 would provide disciplined guidance and a framework for
12 the lower courts to evaluate whether or not a patent
13 should issue in any particular case.

14 The court of appeals in this case did not
15 make express reference to the four-factor test.
16 Nevertheless, it did identify the difficulties with the
17 -- the district court's decisions.

18 CHIEF JUSTICE ROBERTS: You don't think Mr.
19 -- you don't think Judge Bryson forgot about the four-
20 factor test, do you?

21 MR. MINEAR: Absolutely not.

22 CHIEF JUSTICE ROBERTS: Sure. And -- and he
23 was just reflecting the reality that in a typical case,
24 this is what happens. It seems to me all you want us
25 to do is edit his opinion and stick in this formulaic

1 paragraph about there are four factors and here they
2 are.

3 MR. MINEAR: Not exactly, Your Honor. We
4 think that there is some legitimate confusion among the
5 patent bar and in the community about whether or not
6 this test issues nearly automatically or not.
7 Certainly there are many amicus briefs on both sides.
8 And we think it's useful for this Court to make clear
9 that this is an exercise of equitable discretion.

10 Now, Judge Bryson, I think, was aware of the
11 four-factor test. In fact, both parties cited the
12 four-factor test before the district court.

13 He was also aware of the abuse of discretion
14 standard. That's a well-established standard and the
15 parties cited that standard to the Federal Circuit in
16 the course of briefing this case below.

17 But what we think this Court can do is it can
18 provide guidance on how those factors are applied in
19 the patent context in this very important area. We
20 think the court of appeals decision is correct. The
21 judgment is correct. But we think that there's some
22 benefit to this Court explaining why that is so, and
23 I'd like to --

24 CHIEF JUSTICE ROBERTS: Can I ask you about
25 one factor in particular? What if by the time you get

1 to the injunction stage, the -- the patent office has,
2 you know, rejected all of the underlying claims in a
3 preliminary way? It's not final. Can the district
4 court take that into account in deciding not to issue
5 an injunction?

6 MR. MINEAR: Well, I think, Your Honor,
7 you're referring to the reexamination process

8 CHIEF JUSTICE ROBERTS: Right.

9 MR. MINEAR: -- that, in fact, is ongoing in
10 this case. And we think merely that the Patent and
11 Trademark Office's office action is not sufficient. In
12 this case, if I can speak outside the record, there has
13 been what is called a first office action and a second
14 office action, but no final action by the PTO. But
15 even if there was final action by the PTO, that would
16 still be subject to review by an administrative body,
17 the Board of Patent Appeals and Interferences, and
18 there would be further judicial review. The PTO would
19 not withdraw the patent, would not certify that it's
20 invalid until the conclusion of the judicial process.

21 So we think for that reason the district
22 court should not act precipitously. It may have -- the
23 district court would have discretion to take that into
24 account, whether it should stay further proceedings
25 pending the --

1 CHIEF JUSTICE ROBERTS: Well, that's what
2 struck me as odd there. Footnote 27 says that's a
3 basis for staying the injunction. It seems to me if
4 it's a basis for staying the injunction, it's a basis
5 not to issue one in the first place.

6 MR. MINEAR: Well, it also might be a -- a
7 basis in terms of how to structure the injunction. We
8 simply meant to indicate in footnote 27 the district
9 court has discretion on remand to take these factors
10 into account based on where the case is at that time.
11 We're not taking a position one way or another what the
12 Court should do in this particular case. That is an
13 exercise of discretion. It's subject to review for
14 abuse of discretion.

15 But I would like to talk about the four
16 individual factors in this case because I think it
17 provides helpful guidance in the resolution of the
18 dispute before the Court.

19 As an initial matter, with regard to
20 irreparable injury, patent infringement normally will
21 result in irreparable injury because it denies the
22 patent holder its statutory right to exclude others
23 from practicing the invention. It's the type of right
24 that is susceptible to irreparable injury because --

25 JUSTICE STEVENS: But it denies the right

1 subject to being a damage remedy that's available.

2 MR. MINEAR: That's correct, but the
3 difficulty here is the pragmatic question of whether
4 the district court can determine whether damages are
5 appropriate or not in a particular case.

6 JUSTICE STEVENS: Is it always -- is it
7 always going to be irreparable injury if the patentee
8 always gets fairly compensated?

9 MR. MINEAR: No. There -- we certainly
10 recognize there can be cases where there would not be
11 irreparable --

12 JUSTICE STEVENS: So if there are some cases
13 when he gets fairly compensated and some he does not,
14 why should you say it's always irreparable injury?

15 MR. MINEAR: Well, my -- our position is not
16 that it's always, but that it normally is irreparable
17 injury. It usually will be. And there are certainly
18 circumstances we can envision where it would not be
19 irreparable injury.

20 JUSTICE STEVENS: Is that usually will be
21 because usually damages are not an adequate remedy?

22 MR. MINEAR: Yes, that's correct. And the
23 reason why damages are not an adequate remedy is
24 because, as Judge Easterbrook indicated, it's very
25 difficult for the district court, looking forward, to

1 determine what business opportunities are available to
2 the -- to the licensor or the practitioner in the face
3 of the prospect of continuing infringement. And that
4 is why, as Judge Easterbrook noted in the Catheter
5 case, the injunction harnesses the market to determine
6 what the market value of that patent is. It forces
7 negotiation between the parties, as compared to the
8 court acting to try and develop a reasonable royalty
9 based on a battle of experts.

10 JUSTICE SCALIA: When you say going forward,
11 I thought we were talking about damages for the past
12 violation, not damages for future violations which will
13 continue. Are we talking about that too?

14 MR. MINEAR: Yes, that's what we're talking
15 about.

16 JUSTICE SCALIA: About the court effectively
17 saying, yes, here pay him and -- and go on and skip
18 away and continue violating it.

19 MR. MINEAR: Well, when a district court --

20 JUSTICE SCALIA: In this case, they -- they
21 claim not to want to violate it in the future. They're
22 just talking about, you know, the -- the past actions
23 should -- should be compensable by damages and not --
24 they should not be subjected to a very threatening
25 injunction.

1 MR. MINEAR: Yes, but in this case the
2 district court has awarded the damages for the past --
3 past actions already, and the question is how will we
4 deal with the threat of continuing infringement. And
5 the difficulty that the district court faces here is it
6 has to, if it takes no action, as it's done now, it
7 will at some later date have to go back and determine
8 what those damages would be.

9 JUSTICE SCALIA: Which -- when they will be
10 calculable. You're saying it's hard to calculate them
11 into the future. You want the district court to
12 calculate what the future damages will be and say, we
13 think the damages will be this. Here, take your money,
14 and you, God bless you, go continue to violate the
15 patent.

16 MR. MINEAR: Absolutely not.

17 JUSTICE SCALIA: Is that what --

18 MR. MINEAR: We are suggesting what Justice
19 Kennedy suggested; namely, that the injunction
20 proceedings provide an opportunity to determine whether
21 or not the supposed work-around that eBay has will work
22 or will not, and the injunction will be structured to
23 allow it or not, depending on whether or not it's
24 determined to be infringing. That allows the market to
25 go forward with a determination, a certainty that eBay

1 will have that its work-around is either violative or
2 it is not. But our view is that by issuing the
3 injunction, the district court, in the proceedings
4 leading up to the injunction, can determine whether or
5 not this work-around is valid or not.

6 JUSTICE KENNEDY: Is there a classic case
7 where the injunction should not be issued?

8 MR. MINEAR: Yes. There -- I think there --
9 this is a four-factor test, and there are questions of
10 balance of hardship and public interest. And certainly
11 equity should be cautious not to inflict unnecessary
12 hardship on parties. In the case of a nonwillful
13 infringer, for instance, that has made good faith
14 investments that might be set aside by the -- by an
15 injunction, there might be grounds in those
16 circumstances not to issue an injunction. There's also
17 a public interest inquiry as well. If the injunction
18 would threaten national security, public health and
19 safety, undermine core aspects of commerce --

20 JUSTICE KENNEDY: Business processes?

21 MR. MINEAR: Well, business processes are not
22 -- the district court clearly erred here in saying that
23 the mere debate about business process patents is a
24 reason for withholding injunctions. That simply is not
25 a sufficient view -- reason in our mind for weighing

1 against the general public interest and the
2 enforceability of patents and the use of injunctions to
3 make sure that those property rights are secure.

4 JUSTICE BREYER: Suppose --

5 CHIEF JUSTICE ROBERTS: I'm curious about
6 your nonwillful infringer. You're devaluing the value
7 of a particular patent by denying the injunction simply
8 because the people who infringed it weren't willful,
9 and I wonder why that makes sense.

10 MR. MINEAR: We're not suggesting that
11 automatically that there is withhold with relief
12 because of a nonwillful infringement. We're simply
13 drawing the -- the distinction between a case, such as
14 this, where there is willful infringement -- and, in
15 fact, the party has been found to have both had notice
16 of the patent and also have known that it did not --
17 did not have a reasonable basis for concluding it was
18 not infringing or the patent was invalid. In those
19 circumstances, the patentee takes on greater risk than
20 the party that simply is not aware of the -- of the
21 patent and in a sense stepped over a property line
22 without realizing that, in fact, it was there.

23 This is, again, a four-factor test, and we
24 believe all factors need to be considered in order to
25 provide the --

1 JUSTICE GINSBURG: Why is it your bottom line
2 then, send it back with your four-factor test, because
3 there seems to be some uncertainty whether that was
4 applied?

5 MR. MINEAR: We don't think that's
6 appropriate because, first of all, the -- the court of
7 appeals did identify the factors the district court
8 relied on that weighed on -- it thought weighed on
9 eBay's side of the balance, and it properly rejected
10 each one of those.

11 But furthermore, we think that this Court's
12 enunciation of the tests and the application of the
13 tests, much as it did in the patent case of Pfaff v.
14 Wells Electronics 3 years ago, could provide very
15 useful guidance in terms of how this test applies in a
16 specific, concrete context.

17 But the factors that the court of appeals
18 relied on here and rejected, found insufficient were
19 really quite right. First of all, there should not be
20 an automatic distinction between a party that practices
21 the patent and one that licenses it. They both have --

22 JUSTICE BREYER: There isn't an automatic
23 distinction, but a person who licenses a patent and who
24 is licensing a patent that probably won't be developed
25 very much beyond what it is -- it's fairly easy to --

1 I'll ask Mr. Waxman.

2 MR. MINEAR: Thank you, Your Honor.

3 (Laughter.)

4 CHIEF JUSTICE ROBERTS: Thank you, Mr.

5 Minear.

6 Mr. Waxman.

7 ORAL ARGUMENT OF SETH P. WAXMAN

8 ON BEHALF OF THE RESPONDENT

9 MR. WAXMAN: Mr. Chief Justice, and may it
10 please the Court:

11 I -- I can anticipate at least one question.

12 Let me just say at the outset --

13 (Laughter.)

14 MR. WAXMAN: -- that long, perhaps centuries,
15 before Justice Story ever wrote his commentaries on
16 equity, it has been firmly, unequivocally established
17 that a final judgment, not -- we're not talking about
18 an interlocutory order, but a final judgment of patent
19 infringement yields an injunction in all but the very
20 rare case. And that settled regime is not an exception
21 to traditional equitable principles. It's an
22 application of those principles.

23 Equity, as this Court has reminded us over
24 and over again, including in the Weinberger and the
25 Amoco cases -- equity first takes account of the nature

1 of both the right at stake and the violation. And
2 because the only right that a patent provides under
3 U.S. law is a limited-term right to exclude others from
4 practicing the invention, infringement produces an
5 injury that is both, A, irreparable by its nature and,
6 B, continuing in the nature of a continuing trespass to
7 chattels. And under traditional equity principles, a
8 showing of either of those things, either irreparable
9 injury or a continuing harm, warrants an injunction in
10 the owner's favor unless the offending party can
11 marshal very strong equities otherwise. That is the
12 settled rule.

13 Now, no such showing could be made in this
14 case. The jury found, by clear and convincing
15 evidence, that eBay had willfully infringed the '265
16 patent, that it knew about it, and it had no good faith
17 belief either that the patent was invalid or that it
18 was not infringing. The jury was told that if it found
19 either of those things, it could not find willfulness,
20 and it found willfulness by clear and convincing
21 evidence.

22 CHIEF JUSTICE ROBERTS: We also know by now
23 that the patent office has rejected all of the claims
24 of the patent. The staff.

25 MR. WAXMAN: The -- what we know is that --

1 that is correct, Mr. Chief Justice, with the following
2 clarification, that the office action, as Mr. Minear
3 has indicated, represents a -- an initial judgment by a
4 staff member in the office.

5 And what -- what is quite -- and it is --
6 doesn't represent even the PTO's final judgment in the
7 case, but what is really revealing here is that
8 reexamination is a process that was invoked by eBay.
9 And as we point out in our brief, typically if a
10 competitor is concerned or doubts the validity of a
11 patent, it will invoke reexamination, ask the PTO to
12 reexamine it when it first learns about it. eBay not
13 only didn't invoke reexamination, it cited the '265
14 patent at least 24 times years before. It then came to
15 MercExchange and offered to buy it.

16 CHIEF JUSTICE ROBERTS: Is that a factor that
17 a district court could take into account in deciding
18 whether to issue an injunction?

19 MR. WAXMAN: I don't --

20 CHIEF JUSTICE ROBERTS: Say the injunction
21 question came up right now, today. Could the district
22 court say, well, the patent office staff has rejected
23 every claim of this patent, and I'm going to take that
24 into account in deciding whether to put eBay out of
25 business?

1 MR. WAXMAN: I think that -- the case that
2 the U.S. cites in its footnote is an example where
3 reexamination processes are underway when the case is
4 first filed or when it's pending in the district court,
5 and the district judge certainly has the discretion to
6 say, I don't want to get into a -- a fight here about
7 separation of powers and Hayburns case. Let's let the
8 reexam proceed, and then we'll have a trial.

9 In this case, eBay waited not only until it
10 was sued and not only until it was found to have
11 willfully infringed this patent, but in the middle of
12 the appeals process. It then comes running in and a
13 rule that would allow a district judge now to give
14 notice of that in denying an injunction would basically
15 be a -- an open invitation for everybody to go ahead
16 and try and win at trial, go through the whole multi-
17 year process, and if you don't, just put it into
18 reexam. This -- although the reexamination is required
19 to be -- is required to proceed with, quote, special
20 dispatch under the statute, this reexamination of the
21 '265 patent has been almost 3 years in the patent
22 office and we still don't have a final action.

23 So we think, in the circumstances of this
24 case, where the district judge had no reason to
25 consider reexam because eBay hadn't invoked reexam at

1 the time, it would be an abuse of discretion for the
2 court to either refuse an injunction or stay it in
3 light of the fact that it's now proceeding.

4 But that's not an issue for this Court. It
5 wasn't an issue for the court of appeals because it
6 wasn't part of the district judge's analysis of the
7 requisite equitable factors.

8 And what -- if I can just get back to the
9 facts of this particular case and then talk about the
10 law. The finding of eBay's willfulness in this case
11 disables eBay from invoking the relative balance of
12 harms. We certainly agree --

13 JUSTICE BREYER: Why? I mean, I think there
14 are so many factors that could enter into it.

15 MR. WAXMAN: Well --

16 JUSTICE BREYER: What I was going to ask was
17 if you have a -- a patentee that does only license and,
18 moreover, licenses only to people who, by and large,
19 will not take that product and develop it further, then
20 it's fairly easy to calculate damages.

21 Now, couple that with a client or a patentee
22 who also waits for a long time, waits till the
23 invention is embedded in a series of other inventions
24 so that if, in fact, there's an injunction, what will
25 happen is that the patentee will be able to extract far

1 more than this particular invention is worth because
2 the infringer would have to give up the entire
3 invention.

4 MR. WAXMAN: Justice --

5 JUSTICE BREYER: Couple that with a patent
6 that, if you read it on page 2 of the red brief,
7 reminds, at least one person who read it, namely me,
8 that if this could be patented, maybe A&P could patent
9 their process for a supermarket. I -- I mean, you'd
10 worry about that as a judge. And couple that with all
11 the other things that are here.

12 Now, special case? Why not?

13 MR. WAXMAN: I've been asked to couple so
14 many things together, I may forget some of the
15 coupling. Please -- I mean this in seriousness.
16 Please remind me because there is a very good answer in
17 law and on the record to each of your points.

18 JUSTICE BREYER: The main point -- what I was
19 trying to do is I was trying to take what I'd call the
20 patent troll case.

21 MR. WAXMAN: Okay. First of all, this is no
22 patent troll. The founder of MercExchange really did
23 invent this innovation. He really did, as the record
24 clearly shows, spend years of effort trying to build
25 the system to suit himself, and he is no promiscuous

1 licensor. He has -- it has entered into licenses,
2 which are all in the joint appendix, that are very
3 specialized in terms. He was asked by eBay in 2000 to
4 consider selling them. He offered to license them.
5 The parties couldn't come to terms, and eBay then stole
6 the technology. It willfully infringed it, knowing
7 about it, having cited this as prior art, having had
8 one patent rejected as fully anticipated by the '265.

9 And the common law and equitable principles
10 have -- are quite clear from Story, Pomeroy, all the
11 way back, that when you -- when you're talking about
12 balancing private harms, which is what equity courts do
13 -- I'm not talking about the public interest, but I
14 mean private harms, when you have an adjudicated,
15 willful infringer -- I mean, the jury found that it had
16 no good faith belief either that it wasn't infringing
17 or that the patent was invalid -- you don't balance
18 private harms.

19 But let's take the case in which you don't
20 have willfulness. It's not this case. Let's take the
21 case of somebody who doesn't try and, quote, practice
22 the patent. That's not this case. Let's take the case
23 of somebody who's a garage inventor who decides the way
24 to exploit the patent is to license it. License --
25 this -- so far as I'm aware, this is the first case.

1 The district court decision in this case is the first
2 case in the context of a permanent injunction. And
3 I'll explain why preliminary injunctions that seek to
4 preserve the status quo are different. This is the
5 first permanent injunction case I'm aware of that has
6 ever thought that exploiting the patent by licensing it
7 to others to make use of would in -- somehow be costly
8 or disable you from obtaining the relief that section
9 283 and the -- and tradition provided.

10 Section -- section 284, which is the damages
11 provision, talks about remedies, remedies for
12 infringement that has already occurred.

13 The text of section 283 says -- the other
14 side keeps referring to may, may, may not, shall.
15 That's fine. But the purpose of it is to prevent. The
16 operative word in 283 is to prevent. And unless there
17 is an instance in which the patent has expired, the --
18 the infringer is out of business and can show that it
19 couldn't possibly infringe anymore, an injunction
20 issues to prevent further violation.

21 JUSTICE BREYER: On that very point, my
22 question there really was -- that was the heart of it
23 -- that I don't think there's a moral or even patent-
24 related value attached to whether you practice it
25 yourself or not. It's just that when you license it,

1 it's easier -- and a lot of other things matter too.

2 MR. WAXMAN: Well --

3 JUSTICE BREYER: But it's easier to calculate
4 the damage. Now, at least in some subset of cases.

5 So if you have a case where, on the one hand,
6 it's easier to calculate the damage remedy, and at the
7 same time you fear that to issue an injunction will
8 produce a harm to the other side way out of proportion
9 to, in fact, the value that's being lost by infringing
10 on the patent, then those are two things you'd put in
11 the balance.

12 MR. WAXMAN: That's --

13 JUSTICE BREYER: So the -- other things being
14 equal --

15 MR. WAXMAN: In the case of a nonwillful
16 infringer, a court in --

17 JUSTICE BREYER: No. Willful, willful. It
18 wouldn't matter willful or nonwillful, because if he's
19 willful, the reason that he might be willful is he
20 thinks that the patentee is holding him up.

21 MR. WAXMAN: You know, the -- the -- there
22 are 52 self-proclaimed intellectual property professors
23 that filed a brief written by Professor Lemley in
24 support of eBay in this case. Professor Lemley
25 testified under oath to Congress that, even though

1 there are problems with patent trolls, in the case of a
2 willful infringer, the law -- equity doesn't balance
3 private harms.

4 But even if that were wrong, I acknowledge
5 that in balancing, there may be cases in which you can
6 show a vastly disproportionate harm. Okay? I mean,
7 the other side has amicus briefs that come up with
8 these hypothetical scenarios about, you know, one
9 little aspect of a computer chip that has 30,000
10 components to it. Note, A, that all of those are
11 hypothetical, and B, I'll explain why it's a problem of
12 extremely limited circumstances.

13 But, of course, equity courts can decide
14 that, just as they can decide whether the -- the,
15 quote, innocent patent holder is guilty of laches,
16 unclean hands, estoppel, all of these other equitable
17 considerations that aren't captured by this formulaic
18 four-factor test but that equity courts, including
19 district courts sitting under -- under 283, consider.

20 But this is not the case of some profligate
21 licensor. This is somebody who has licensed with
22 specific provisions. The other side says, well, there
23 are no operative licenses, suggesting somehow that the
24 AutoTrader license, which is one of our examples, is in
25 fact invalid. That came up in their reply brief. It

1 is not correct. It is absolutely true that eBay will
2 not -- the '265 patent is included by that license. It
3 relates to the field of use of auto sales. It provides
4 specifically that eBay -- that MercExchange cannot
5 receive royalties unless it enforces this patent within
6 the field of use. There is no doubt that -- that
7 MercExchange will not be able to start getting patent
8 royalties from AutoTrader unless and until it obtains
9 this injunction. And for example --

10 CHIEF JUSTICE ROBERTS: Mr. Waxman, you
11 mentioned, in -- in responding to the suggestion that
12 we're dealing with a troll, you described -- what
13 exactly is the invention here?

14 MR. WAXMAN: The -- the invention is a --
15 it's -- it's not a business method. It doesn't claim
16 methods. It claims a system, an apparatus for an
17 electric market for the sale of goods via a network.

18 CHIEF JUSTICE ROBERTS: Electric. I mean,
19 it's not like --

20 MR. WAXMAN: Electronic market.

21 CHIEF JUSTICE ROBERTS: -- he invented the,
22 you know, internal combustion engine or anything. It's
23 very vague I think, and this is one of the
24 considerations --

25 MR. WAXMAN: Well --

1 CHIEF JUSTICE ROBERTS: -- the district court
2 mentioned. The exact parameters of when it was going
3 to be infringed and when it wasn't were amorphous. And
4 so isn't that a factor the district court can take into
5 account in deciding whether to issue an injunction
6 because it's going to be hard to issue an injunction to
7 define exactly when it's going to be violated and when
8 it's not?

9 MR. WAXMAN: Well, Mr. Chief Justice, if it
10 turns out that it's too hard and -- and the -- and a
11 specific injunction can't be written, rule 65(d)
12 requires that an injunction not issue. And in fact, as
13 we've cited in pages 17 and 18 and, I think, 19 of our
14 brief, the Federal Circuit has, in fact, overruled
15 injunctions that were insufficiently precise to satisfy
16 rule 65.

17 But the claim of imprecision here is -- look,
18 I'm not a software developer and I have reason to
19 believe that neither is Your Honor, and I -- I can't --

20 (Laughter.)

21 MR. WAXMAN: -- explain specifically what
22 this claims. It's laid out very carefully in --

23 CHIEF JUSTICE ROBERTS: I may not be a
24 software developer, but as I read the invention, it's
25 displaying pictures of your wares on a computer network

1 and, you know, picking which ones you want and buying
2 them. I -- I might have been able to do that.

3 MR. WAXMAN: Well --

4 (Laughter.)

5 MR. WAXMAN: I'll say respectfully that that
6 is not a fair characterization of the innovation here,
7 the actual innovation.

8 But let me just say, for purposes of this
9 case, there is no challenge continuing to the validity
10 of this patent. It was challenged before the district
11 court and on appeal on grounds of an inadequate written
12 description, et cetera, et cetera, and upheld. There
13 was a Markman hearing in which the district court
14 construed the patent, added certain claim limitation
15 terms that eBay wanted and we thought were not fairly
16 in it. But significantly, there was never -- never --
17 a claim to the judge -- and this is an issue for the
18 judge under section 112, paragraph 2 -- of -- of
19 invalidity for indefiniteness.

20 CHIEF JUSTICE ROBERTS: Well, but the patent
21 office staff has rejected all the claims. I don't know
22 on what grounds.

23 MR. WAXMAN: The patent office -- none of the
24 claims have been rejected on indefinite grounds. They
25 have been rejected, as I understand it, certainly in

1 this patent, for obviousness under prior art, which is
2 all the same prior art that was presented to an Article
3 III court here and that a jury entered a finding on.
4 There are a host of questions that undoubtedly will be
5 presented in the case, if it ever happens, in which a
6 final -- Patent and Trademark Office, on the validity
7 of a patent, contravenes something that a -- a final
8 judgment of an Article III court. But that's not this
9 case.

10 And we certainly agree with the United States
11 that when -- if the judgment is affirmed, the case will
12 go back and the district court will then have to
13 address a point it hasn't addressed yet, which is is
14 the -- is the -- the permanent injunction proposed by
15 MercExchange adequate or inadequate and how can it be
16 made specific, and this supposed work-around -- does it
17 or doesn't it violate the terms of the injunction. I
18 mean, the district judge actually found bad faith --
19 this is page, I think, 71 of the petition appendix --
20 of eBay in its conduct in the district court of
21 proclaiming that for \$8,000 -- its experts testified
22 that for \$8,000, they could work around or design
23 around this problem and there wouldn't be an
24 infringement. But they didn't do it. And they didn't
25 -- they certainly didn't appear to have done it in the

1 Federal Circuit because their brief in the Federal
2 Circuit never mentions it, and the Federal Circuit
3 opinion surely would have said, they've designed around
4 this problem and, you know, therefore this, that, or
5 the other. Even in this Court, eBay has said in its --
6 in its opening brief at page 43, here there is a
7 possibility that the infringer can develop a work-
8 around. Well --

9 JUSTICE STEVENS: Mr. Waxman, could you help
10 me with something I just realized I have no conception
11 of here? What kind of -- what do these injunctions
12 say? Do they just say don't infringe patent '265
13 anymore, or do they give a list of things you cannot do
14 and a list of articles you cannot make and so forth?

15 MR. WAXMAN: You couldn't just say don't
16 infringe anymore because rule 65(d) requires
17 specificity and precision. Ordinarily what happens in
18 these cases is there's -- you know, there's usually
19 been a claimed -- a detailed, claimed construction
20 following a Markman hearing. There have been jury
21 instructions. The jury instructions have to
22 specifically describe to the jury on what basis it's to
23 conclude who is right --

24 JUSTICE STEVENS: The thought just occurs to
25 me and I -- frankly, with all the briefs we've had, I

1 feel kind of stupid not to have thought it before. But
2 it seems to me a great difference might turn on what
3 exactly the injunction provided. Some injunctions must
4 be -- might be much more burdensome than some others.
5 If they're not all fungible, that's certainly true.

6 MR. WAXMAN: Certainly not. And the terms of
7 an injunction are appealable, and the Federal Circuit
8 has reviewed actual terms of permanent injunctions and
9 reversed a number of them and said this is -- this
10 doesn't satisfy rule 65 or it doesn't meet other
11 requirements.

12 But in the -- in the context of this case, it
13 is so critical that the judgment be affirmed, not
14 vacated, because this is a real inventor. This is
15 somebody who really did try to put it in place. This
16 is somebody who eBay approached and then, when they
17 didn't buy it, appropriated the technology, and the
18 validity and infringement are final. They aren't even
19 challenged in this Court.

20 And any suggestion that uncertainty exists on
21 the facts of this case would dramatically destabilize
22 settled law, licensing practices, and the investment-
23 backed expectations of patent holders, large and small,
24 the sole -- you know, hall of fame inventors that are
25 in the Cooper brief filed in support of us and big,

1 integrated companies like GE and Johnson & Johnson that
2 have also filed on our side.

3 JUSTICE STEVENS: May I ask this?

4 MR. WAXMAN: These are patent portfolios --

5 JUSTICE STEVENS: One -- one short question.
6 Is the draft of the injunction that you want in the
7 record?

8 MR. WAXMAN: It is in the court of appeals
9 record, but not the joint appendix. But it certainly
10 will have to be changed because the court of appeals
11 invalidated the '176 patent, which the jury found had
12 been infringed, and therefore, it's -- it will need to
13 be revisited when the case goes back for the entry of
14 an injunction.

15 Thank you, Your Honor.

16 CHIEF JUSTICE ROBERTS: Thank you, Mr.
17 Waxman.

18 Mr. Phillips, you have 6 minutes remaining.

19 REBUTTAL ARGUMENT OF CARTER G. PHILLIPS

20 ON BEHALF OF THE PETITIONERS

21 MR. PHILLIPS: Thank you, Mr. Chief Justice.

22 I realize I'm the only thing standing between you and
23 lunch, so I'll try to be brief at this point.

24 Justice Stevens, with respect to the place in
25 the record, this is in the joint appendix and the court

1 of appeals at A6523 -- 62523. That's the proposed
2 permanent injunction, and I won't purport to read the
3 whole thing, but it starts off with anything directly
4 or indirectly, and it goes on for three pages. It is,
5 I think, fairly characterized as a very broad
6 injunction.

7 The -- I think it's important, after Mr.
8 Waxman's challenge to the conduct of eBay in this case,
9 to -- to recognize that willfulness in the patent
10 context has a meaning different from willfulness in any
11 other context. And it is recognized that we're talking
12 about simply a failure to satisfy a duty to check out
13 and find a lawyer's opinion that a particular
14 infringement has not taken place or that the patent is
15 not valid. And when you do that, you of course incur
16 the risk that you will also waive your attorney-client
17 privilege. So there's a risk to it. And that's the
18 willfulness that we're talking about here.

19 With respect to the notion of stealing this
20 patent, let's go back to what the district court
21 specifically held on page 68 of the appendix. Where
22 the defendants maintain that their success did not
23 arise from the use of anything contained in the
24 plaintiff's patents and the defendants argued that the
25 patents offered no business or engineering guidance

1 which the defendants could copy, and this court agrees
2 with that. That's not the kind of bad faith or
3 willfulness -- it's the reason why the court didn't
4 grant enhanced damages. It's the reason why the court
5 didn't grant attorney's fees in this particular case,
6 and it doesn't provide a reason for simply jettisoning
7 three out of the four factors that ought to be applied
8 in the traditional -- in the traditional test.

9 And, Justice Breyer, you asked the question,
10 what are you going to do with a situation where you
11 have the embedded patent and you have the case like
12 this one where we're going along with our process and
13 we've got our source code and we've done all of the
14 hard work, and they go along and come up with some sort
15 of more vague idea and show up at our doorstep and,
16 one, claim that we've got to stop doing what we're
17 doing, or, worse in other cases, we're going to find
18 situations where it's embedded in a manufacturing
19 process. Mr. Waxman says, well, in that situation
20 equity will step in. Not so under the Federal
21 Circuit's approach because that's a balance of the
22 equities kind of a consideration, and that's
23 irrebuttably presumed to favor the plaintiff under the
24 Federal Circuit's approach.

25 Mr. Chief Justice, I know, as well as you

1 know, that Judge Bryson understands the four-factor
2 test and the abuse of discretion standard. And what he
3 did in this case was to go through each of the findings
4 of the district court with respect to the use of the --
5 of the licensing arrangements, the failure to
6 commercialize this, not being in the business, and
7 said, does any of these rise to the level of the kind
8 of public interest concern that is the only legitimate
9 consideration this court will use in deciding whether
10 or not the district court can justify not granting an
11 injunction in a particular case, instead of what is
12 clearly the traditional approach of equity, which is to
13 say, look at the -- the primary two issues, you know,
14 the flip side of the same thing, so I'll just treat it
15 the one way. Are money damages adequate in the
16 specific case? That's the fundamental question that
17 equity asks. That's the fundamental question that the
18 district court found to be satisfied in this case.
19 Money damages will get the job done. The right to
20 exclude will be adequately protected by enhanced
21 damages and even potentially injunctive relief in the
22 future. Beyond that, nothing more is required.

23 That's the kind of decision that a district
24 court who has sat in a 5-week trial and has overseen
25 this entire litigation is uniquely suited to make a

1 judgment. That judgment is entitled to respect on a
2 classic abuse of discretion standard. The court of
3 appeals long ago jettisoned that approach, and the time
4 has come for this Court to say no, that's not what this
5 Patent Act requires. The Patent Act says the right to
6 exclude is important, but it's only protected by the
7 principles of equity under section 283. That wasn't
8 given here. We urge you to reverse the court of
9 appeals.

10 If there are no further questions, thank you,
11 Your Honor.

12 CHIEF JUSTICE ROBERTS: Thank you, counsel.

13 The case is submitted.

14 (Whereupon, at 12:30 p.m., the case in the
15 above-entitled matter was submitted.)
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