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Injunctions After 'eBay': Is the Specter Still Real?

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The threat of a permanent injunction in a patent infringement case looms large over an accused infringer. And thanks to *NTP, Inc. v. Research in Motion, Ltd.* (the well-known "BlackBerry case"), and our increased reliance on technology, the public has become acutely aware of the immense power and adverse effects that an injunction can have on everyday life. But the threat may be losing a bit of its bite. This past May, the Supreme Court's decision in *eBay Inc. v. MercExchange LLC* put an end to a long-standing practice of courts to grant permanent injunctions almost as a matter of course upon a finding of patent infringement.

The specter of a routinely granted injunction provides substantial leverage to patent owners in licensing and settlement negotiations. This is particularly true for so-called "trolls": patent holders who do not practice their patented technologies, and base their business model on monetizing their patents. Faced with a worst-case scenario of having to shut down production lines worth hundreds of millions or even billions of dollars, accused infringers often have chosen to settle with such trolls, even when the infringement case is of dubious merit.

The BlackBerry case provides an example. In 2002, a Federal Court found that RIM's BlackBerry service infringed

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NTP's patents covering the integration of e-mail systems with wireless networks, and issued a permanent injunction. The potential shutdown of BlackBerry service sparked the interest of -- and in some cases panic in -- millions of BlackBerry users. RIM argued that the public interest necessitated that an injunction should not issue, noting that there are over 1 million government and emergency personnel among their users, and noting that the patent owner could not provide a substitute service. On Jan. 23, 2006, the Supreme Court disregarded this plea and declined to hear RIM's appeal. Facing a shutdown of their entire network, RIM agreed to settle for \$612.5 million.

Following the settlement of the BlackBerry case, the Supreme Court decided *eBay Inc. v. MercExchange LLC*. In *eBay*, the Supreme Court rejected the Federal Circuit's "general rule" that, upon a finding of patent infringement, courts should issue permanent injunctions absent exceptional and rare circumstances. The Supreme Court instead held that in a patent case, as in any other case, a permanent injunction is an equitable remedy that must be evaluated under equitable



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principles using the traditional four-factor test. Thus, a patent owner, like any other plaintiff, must demonstrate:

- * Irreparable harm
- * Inadequate remedies at law
- * A balance of hardships in its favor
- * Public interest would not be disserved

The Supreme Court also denounced the use of broad classifications in applying these four factors, stressing that each case must be evaluated on its own merits.

Now, five months after the Supreme Court's *eBay* ruling, at least one significant trend in district court decisions has begun to emerge. In analyzing the irreparable harm and the adequacy of monetary damages factors, courts are placing a great deal of emphasis on whether the patent owner is a manufacturer of the invention and, particularly, whether the parties are direct competitors.

For example, in *TiVo Inc. v. EchoStar Communs. Corp.*, 2006 U.S. Dist. LEXIS 64290 (E.D. Tex. Aug. 17, 2006), a federal judge granted TiVo a permanent injunction enjoining the sale of EchoStar's competing DVR devices, and requiring the disabling of DVRs already in place with customers. The TiVo court recognized that loss of market share, particularly in emerging markets, is a key consideration in determining irreparable harm. Other decisions granting permanent injunctions similarly turn on evidence of loss of market share, damage to good will, and loss of brand name recognition. Such incalculable losses are often a necessary and consequential result when the patent owner and infringer are direct competitors.

Conversely, in cases denying injunctive relief, the patent owner typically did not practice the patented technology. For example, even in the purportedly pro-plaintiff forum of the Eastern District of Texas, a federal judge in *Paice LLC v. Toyota Motor Corp.*, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006), denied the plaintiff's motion to permanently enjoin Toyota's sale of infringing vehicles. Defendant argued that plaintiff did not sell or manufacture competing vehicles, but rather is geared towards licensing its technology. Ruling in the defendant's favor, the district court noted the lack of competition for market share or any concern regarding brand name recognition.

District courts denying injunctive relief have also latched onto statements in Justice Anthony Kennedy's *eBay* concurrence regarding patents directed to "small components" of larger products when analyzing the first two equitable factors. In *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006), a federal judge noted that z4's patented product activation technology is a very "small component" of the Microsoft Windows and Office software products that z4 sought to enjoin. Therefore, as it is not likely that Microsoft's consumers purchase these products for the product activation functionality, z4 would not suffer any irreparable harm and monetary damages would be sufficient to compensate for any future infringement.

Despite the Supreme Court's effort in *eBay* to eliminate any broad classifications or bright-line rules, the case law may be evolving into just that. If a patent owner manufactures its patented technology in the face of direct competition with the infringing party, a permanent injunction is likely. Conversely, if a patent owner does not make or use its invention, then an injunction likely will not follow. Now more than ever, it appears that the identity of the patent owner and the nature of the patent and infringing product truly do matter.

Would the outcome of BlackBerry case be different in the post-*eBay* world? Following the general trend summarized above, one would not expect an injunction to have issued. NTP is not practicing the patented technology and there was a large articulated public interest in preserving the status quo. Perhaps the case law must still fully develop in order to accurately predict when a patent owner can expect an injunction. However, if the current post-*eBay* trend is any prediction of the future, it appears for now that the permanent injunction door is being nudged closed on non-practicing patent owners.

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