

Litigation Post eBay

Wednesday, October 18, 2006 --- The Supreme Court's opinion in *eBay v. MercExchange L.L.C.*, 126 S.Ct. 1837 (2006) restored the district court's discretionary power to determine whether to issue injunctive relief after a finding of infringement and validity in patent cases.

Based on a review of the Texas district court decisions applying *eBay* in patent cases to date – which were all decided by the Eastern District of Texas – it appears that, post *eBay*, permanent injunctions are unlikely to be issued in cases where the plaintiff does not practice the technology claimed in the patents.

This is good news for companies seeking tools to fend off so-called “patent trolls” or aggregators because the threat of injunction shutting down an infringer's line of business is likely to be minimized in situations where the plaintiff does not compete with the defendant.

Conversely, *eBay* is bad news for patent holders who use patents primarily to obtain license fees and not to produce and sell goods because it eliminates much of the negotiating leverage these entities previously enjoyed.

* *z4 Technologies Inc. v. Microsoft Corporation* *

The first opportunity for a Texas district court to apply *eBay* arose in *z4 Technologies, Inc. v. Microsoft Corporation*, 434 F.Supp.2d 437 (E.D. Tex. 2006).

In *z4*, following a jury verdict of infringement and validity, the plaintiff sought a permanent injunction enjoining Microsoft from making, using or selling software products that use product activation (namely, the Windows XP products since 2001, and the Office products since 2000) and further requested that the servers which control product activation for the infringing products be deactivated.

Judge Leonard Davis applied the four-factor test for injunctive relief re-established in *eBay*. First, Judge Davis rejected *z4*'s contention that a finding of infringement and validity created a presumption of irreparable harm by explaining that *eBay* “warned against the application of categorical rules” in the injunction analysis.

Judge Davis also concluded that *z4* did not suffer irreparable harm because “Microsoft's continued infringement [did] not inhibit *z4*'s ability to market, sell or license its patented technology to other entities...[because] Microsoft [did] not produce product activation software that it then individually sells,

distributes or licenses to other[s].”

Because the infringing technology was a small component of the whole product and was “in no way related to the core functionality for which the [product] is purchased by consumers,” Judge Davis also determined that z4 failed to prove that monetary damages were inadequate to remedy Microsoft’s infringement.

With respect to the third factor – the balance of hardships – Judge Davis found that the potential hardship to Microsoft if the injunction were granted outweighed any hardships that z4 would suffer if injunctive relief was denied.

Specifically, Judge Davis determined that the damage Microsoft would incur to deactivate the servers and redesign the infringing products exceeded the damage caused to z4 from having Microsoft use its technology because the latter could be compensated by money damages.

Lastly, due to the prevalence of Microsoft’s products, the Court concluded that an injunction involving these products would have a “host of repercussions to the public.” In contrast, the court was unaware of any negative effects on the public in the absence of an injunction.

Therefore, Judge Davis determined that the four-factor test outlined in eBay, and utilized by courts everywhere in non-patent cases, weighed in favor of denying z4’s motion for permanent injunction.

* Paice L.L.C. v. Toyota Motor Corporation *

In Paice L.L.C. v. Toyota Motor Corporation, Judge David Folsom applying eBay denied a motion for permanent injunction. No. 2:04-CV-211, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006).

In Paice, the plaintiff sued Toyota alleging that some of its vehicles infringed its patents for hybrid transmissions. Following a jury verdict of infringement and validity, Paice filed a motion for permanent injunction seeking to enjoin sales of the accused vehicles.

Judge Folsom’s analysis in Paice tracked Judge Davis’ reasoning in z4. Judge Folsom explained that, post-eBay, irreparable harm will no longer be presumed after a finding of infringement and validity.

Judge Folsom also rejected the movant’s contention that it could establish irreparable harm by showing an inability to successfully license its technology absent an injunction. In so holding, the Court found it significant that Paice did not “compete for market share with the accused vehicles.” As such, “concerns regarding loss of brand name recognition and market share similarly [were] not implicated.”

Like Judge Davis, when determining whether the harm to the plaintiff could be remedied by money damages, Judge Folsom also relied heavily on the

fact that the infringing technology was a small component of the overall vehicle produced by Toyota.

Finally, the court concluded that the balance of hardships and public interest factors weighed in favor of denying the injunction. Judge Folsom determined that an injunction would have a significant adverse effect on both Toyota and the hybrid vehicle market, whereas Paice would suffer “only minor economic losses” if the injunction was denied.

* Tivo Inc. v. Echostar Communications Corporation *

Just one day after denying the permanent injunction in Paice, the busy Judge Folsom granted a permanent injunction in *TiVo Inc. v. Echostar Communications Corp.*, No. 2:04-CV-1, 2006 WL 2398681 (E.D. Tex. Aug. 17, 2006).

In *TiVo*, the plaintiff contended that the defendant’s digital video recorders infringed several claims of its patent. After a jury verdict finding willful infringement and upholding the validity of *TiVo*’s patent, *TiVo* moved for a permanent injunction seeking to prevent *EchoStar* from “making, using, selling, offering for sale, and or importing into the United States” its infringing DVRs.

Notably, this injunction would prevent new sales and also deactivate the DVRs for customers who previously purchased the infringing products.

Judge Folsom’s analysis in *TiVo* closely followed his decision in *Paice*, albeit with a different result. In *TiVo*, the plaintiff demonstrated both that it would continue to suffer irreparable harm in the absence of an injunction and that there was no adequate remedy at law. Importantly, Judge Folsom noted that a “key consideration in finding that Plaintiff suffers irreparable harm” is loss of market share in a newly established market.

The court found it important that the products’ consumers were “sticky customers,” who tended to remain with the company from whom they first obtained the product. Therefore, the impact of the infringement resulted in “shaping the market to [*Tivo*’s] disadvantage” and *Tivo*’s “long-term customer loss.”

According to Judge Folsom, the balance of hardships also militated in favor of injunctive relief because *Tivo* was a relatively new, small company and *Echostar*’s products competed directly with *Tivo*’s products.

This was especially true because the “infringing products [did] not form the core of *Echostar*’s satellite transmission business,” and an injunction would not have interfered with the transmission business. As a result, *Echostar* would “endure less harm than [the] plaintiff.”

Finally, Judge Folsom concluded that the public interest would not be disserved by a permanent injunction. The “public has an interest in

maintaining a strong patent system [which] is served by enforcing an adequate remedy for patent infringement – in this case, a permanent injunction.”

Because the infringing products were for entertainment purposes only, the public did not have a greater interest in allowing Echostar’s customers to continue to use infringing products. Therefore, the Court granted Tivo’s motion for a permanent injunction.

* Finisar Corporation v. DIRECTV Group Inc. et al. *

Finally, in *Finisar Corporation v. DIRECTV Group, Inc.*, No. 1:05-CV-264, (E.D.Tex. – Beaumont, July 6, 2006), Judge Ron Clark denied a motion for permanent injunction following a jury finding of infringement and validity in a patent case. In so doing, Judge Clark applied *eBay* in a manner similar to Judge Davis and Judge Folsom.

With respect to the irreparable harm factor, Judge Clark rejected Finisar’s argument that the right to exclude others from using their patent “could be priceless.” In so doing, Judge Clark relied heavily on the fact that Finisar never sold the rights to the patent and never made an effort to use the patent.

Judge Clark determined that damages and future damages would be sufficient to remedy the harm caused by defendant’s infringement. To compensate plaintiff for future damages, Judge Clark held that the grant of a compulsory license to DIRECTV would “adequately compensate Finisar for DIRECTV’s use of the inventions, especially since Finisar evidently never had the will nor the means to implement the patent itself.”

With respect to the balance of hardships, Judge Clark determined that the cost associated with enjoining DIRECTV would be “enormous,” especially compared to Finisar’s lack of hardship “in receiving over \$100 Million from a patent which has been on a shelf for some ten years with no return at all.”

Finally, the court concluded that no public interest would be served by enjoining DIRECTV. Judge Clark reasoned that the public policy of deterring infringement was adequately addressed by the money judgment and that the public actually has an interest in “technology being used and improved upon.”

* What Does the Future Hold for Patent Litigants? *

Plaintiffs in patent lawsuits can no longer be confident that district courts will follow the historical practice of entering a permanent injunction following a finding of infringement and validity. As the above decisions demonstrate, the identity and motives of the plaintiff will have an impact on whether a permanent injunction will issue.

These district court opinions took their cue from the distinction Justice

Kennedy's concurring opinion in eBay made between "university researchers or self-made inventors" and firms that "use patents not as a basis for producing and selling goods but, instead, primarily for obtaining license fees."

Based on the cases discussed above, it appears that plaintiffs that use their patents to produce goods and services are far more likely to obtain injunctive relief against competitors adjudged to infringe their patents than are plaintiffs who merely license their patents.

It is also likely that Justice Kennedy's "one component of a larger product" argument becomes the most declared passage of the eBay decision. Indeed, in *z4* and *Paice*, Judges Davis and Folsom both relied heavily on the fact that the infringing device was a small component of a larger product to deny the plaintiff's request for a permanent injunction.

In the settlement context, accused infringers are less likely to pay "shakedown" license fees to avoid the risk of being permanently enjoined from practicing the technology in the future. Defendants will be more likely to aggressively defend against charges of infringement resulting in more patent cases going to trial and, consequently, higher litigation costs for those cases.

The increased difficulty associated with obtaining injunctive relief following a finding of infringement and validity will likely stem the rising tide of patent cases filed by non-practicing entities. Syndicates of attorneys who routinely filed infringement suits against multiple defendants solely to extort nuisance value or cost of defense settlements have lost their big hammer – the threat of an automatic injunction if they prevailed.

Now, those attorneys and their clients will be faced with an increased likelihood that the accused infringers will not all fall in line and settle. Faced with the prospect of lengthy and costly patent trials, a reduced chance at obtaining a permanent injunction if they prevail, and the risk that the patent could be invalidated or found unenforceable, patent plaintiffs and their counsel may file fewer infringement cases.

The bottom line prediction: we will see fewer permanent injunctions and more patent trials as a result of eBay.

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