ROBINSON BRADSHAW & HINSON

INTELLECTUAL PROPERTY ARTICLE OCTOBER 2006

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Supreme Court Changes Patent Infringement Landscape
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In an article in this newsletter earlier this year [Spring 2006], we raised a number of questions about the state of the U.S. patent system. Among those questions was whether a patent holder—whether legitimate business or "patent troll"--should automatically be entitled to an injunction against any infringer, regardless of practical impact. Our question had been stimulated by recent events in the Blackberry case, formally known as *NTP, Inc. v. Research in Motion, Ltd.* RIM, the Canadian maker of the Blackberry portable e-mail device, had just agreed to pay over $600 million to settle a patent infringement suit brought by Arlington, VA-based NTP, Inc., a company whose principal asset was that patent. After a jury verdict of infringement had been upheld on appeal, the settlement was reached after a threat by the federal trial judge who had jurisdiction of the case to issue an injunction prohibiting any further use of the current Blackberry system by RIM *and its customers*. It was widely believed that the NTP patents would ultimately be rejected on reexamination by the Patent office, but the judge was not prepared to wait out that lengthy process.

The judge was simply following the law. A patent holder who proved infringement had long had a near-absolute right to a injunction against any further use of an infringing product or method. The relative blameworthiness of the infringer and the business consequences of the injunction were irrelevant. Damages (typically in the form of lost profits or a reasonable royalty) were almost always deemed insufficient compensation. To many observers, the Blackberry case was conclusive proof that the law was wrong: an

immensely popular worldwide communication system was on the verge of being shut down, without any regard for the millions of people who would be affected.

The Supreme Court apparently agreed with the critics. In *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006), decided in May of this year, the Court rejected the presumptive right to injunction once an infringement has been proved. Instead, it held, patent cases must use the "balance of the equities test" that is applied in other cases. Under this test, the court must consider whether the patent holder will suffer irreparable harm if the injunction is not granted, whether damages alone can provide adequate compensation for the infringement, the relative hardships that would be imposed on the two sides if the injunction is or is not granted, and—what might have been critical in the Blackberry case—*the public interest.*

The few lower court cases that have followed *eBay* suggest that its impact may be substantial. For example, in a case called *z4 Technologies, Inc. v. Microsoft***,** a federal district court in Texas found that Microsoft Windows and Office had *willfully* infringed the plaintiff's patents. Under pre-*eBay* practice, the court almost certainly would have issues a broad injunction. But this court refused to do so, ordering Microsoft to pay a reasonable royalty instead. In analyzing the public interest factor, the court noted pointedly that the Windows and Office are "likely the most popular software products in the world," and worried about the effect on users. How must the Blackberry people feel now about paying that $600 million?

The *eBay* decision seems clearly to have been directed against the practice of patent trolling, in which holding companies acquire portfolios of patents solely for the purpose of suing potential infringers. The trolls' principal weapons in gaining large settlements have been established companies' fears of shut-down injunctions—as Blackberry illustrates, even suspect patents have posed that threat—and the exorbitant cost of large-scale patent litigation. So the good news about *eBay* is that one of those two weapons has been largely neutralized. The draconian injunction remains a possibility, but courts are now on notice that

they must evaluate its impact from a common-sense business perspective. In most cases, companies fighting trolls will face damages (which can be large, but are nonetheless finite) as their worst-case scenario.

But there is also a negative side to *eBay*. Not all patent plaintiffs are trolls. Many are legitimate operating companies whose patented technology has been misappropriated by a competitor. Under the new rules, they may end up with an infringer being allowed to stay in business by paying a "reasonable royalty," getting, in effect, a court-imposed license. From these plaintiffs' point of view, is it fair to let patent infringement become just another business strategy, with predictable—and *reasonable*—costs?

So businesses are likely to have mixed reactions to *eBay*, depending on where they stand in particular cases. On the one hand, the fear of being blindsided by a troll who can threaten to destroy the company is much reduced. There may be a price to be paid, but the sort of extortionate settlement that was extracted in the Blackberry case should become far rarer. On the other hand, though, those same companies may have to learn to live with infringers of *their* patents whom the courts refuse to shut down. From an overall economic perspective, the net effects of the injunction changes are likely to be positive, but at the cost of injustice in many individual cases.
