US Supreme Court hammers trolls but others could be caught too

It was, said Robert Holleyman, President and CEO of the Business Software Alliance, "a clear victory for innovation and for consumers, and a defeat for patent trolls and others who are abusing the legal system". And, he continued, this marked the beginning of what could be a sea change in the way US courts handle patent litigation: "By giving courts greater latitude on whether or not to issue an injunction, we are making progress towards restoring much-needed balance to the out-of-control patent litigation process."

Well, he would say that, wouldn't he? From the perspective of BSA members – most of them big companies with multiple product lines and large patent portfolios – there can be no denying that the Supreme Court's decision in *eBay Inc v MercExchange LLC* is a welcome one. The dispute centred on MercExchange's allegation that eBay had infringed its business method patent for an electronic market to facilitate sales by establishing a central authority. Although a jury sitting in the District Court for the Eastern District of Virginia found the patent valid and infringed, the Court denied a motion for permanent injunctive relief. This decision was reversed on appeal to the Federal Circuit on the basis that in patent cases it was normal to expect that "a permanent injunction will issue once infringement and validity have been adjudged". It was this finding that eBay asked the Supreme Court to overturn.

A harder task

In rejecting the Federal Circuit's general rule that "courts will issue permanent injunctions against patent infringement absent exceptional circumstances", the Supreme Court justices have made it harder for such businesses to be held to ransom – as they would put it – in negotiations to settle patent infringement disputes. Whereas before the *eBay* decision, there was always the very real possibility of having a whole product line shut down if agreement could not be reached with an aggressive business seeking to assert its rights, now such a prospect is much less likely: the four part test which the Court has stated should be applied before a permanent injunction can be granted (see box, page 6) requires, among other things, that a plaintiff must have suffered irreparable injury and that a permanent injunction is equitable, as well as being in the public interest.

What's more, in a concurring opinion to the Court's main decision, Justice Kennedy, on behalf of three other colleagues, stated that the test might not be applicable to certain types of patent – such as those which cover "a small component of the product the [infringer] seeks to produce" – or to certain types of patent holder, such as those that use patents "not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees".

While the Supreme Court has left it to judges in the district courts to decide when the test has been met, there is clear guidance from nearly half those

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Implications of the *eBay* case

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sitting in the highest court in the US that in certain situations the permanent injunction has little if any role to play. And that has got to be quite persuasive. Certainly, any company that intends to bring suit against another in the future will have to build irreparable harm into its case from the very start – even to the extent of raising it in a first cease and desist letter or the initial complaint. Evidence of such harm will also have to be collected. Which means that, as is often the way with these things, one of the big winners in the *eBay* case is likely to be America's patent bar: more work combined with uncertainty will inevitably lead to higher fees.

The BlackBerry case

The Supreme Court's decision came at a time when the issue of patent trolls and their allegedly malignant effect on the patent system had become front page news in the US, with much of the reporting focused on the BlackBerry litigation between Research In Motion (RIM) and NTP Inc. While it is difficult to believe that the Court would have been influenced by the – at times – hysterical commentary surrounding that case, it must be a matter of regret to RIM that the *eBay* decision had not been handed down a couple of years previously.

There cannot be many in the intellectual property world and beyond who are not now familiar with what the BlackBerry case was all about: NTP alleged that RIM had infringed its patents in developing BlackBerry and its claims were upheld by a Virginia jury, which awarded NTP damages, court costs and a 5.7% royalty on all BlackBerry sales. RIM lost its appeal and was unsuccessful in persuading the Supreme Court to hear the case. It then spent a year very publicly trying to reach a settlement with NTP – one proposed US$450 million pay-off was initially agreed only to collapse; and the Canadian company was only a week away from hearing whether the judge in the case would award a permanent injunction in favour of NTP when it finally agreed to settle for US$612.5 million.

While RIM ended up on the wrong side of a big settlement it did get to keep its business intact, and was able to set the reporting agenda, so that almost all stories surrounding the case focused on the appalling possibility that millions of Americans may lose the right to use their BlackBerrys because of the actions of a supposedly greedy patent troll. Never mind that RIM had repeatedly rejected the chance to settle the case for a much lower figure early on in the dispute; never mind that it had been found to be fabricating evidence during the course of the trial itself; never mind that NTP's founder was an inventor who had originally filed the disputed patents after years of work and research in the telecommunications industry; no, the precious BlackBerry was under threat and that could only be because someone was playing dirty. That someone was, of course, NTP.

It has to be said that RIM handled its PR brilliantly and in doing so kept investors off the company's back. Instead of asking difficult questions of senior management about whether patent searches had been conducted before development of the BlackBerry began and, if so, what they had turned up (the alternative follow-up question being, if no – why the hell not?); or about why it was possible to develop invent around technology that did not infringe NTP patents in 2005 but not sooner, investors instead walked away happy having seen RIM stock rise 17% on the day the final settlement was announced.

What if...

We can only speculate, but it is certainly fair to believe that had the *eBay* decision already been handed down, the urgency which finally forced RIM to the table would not have been there. With 3.7 million BlackBerry users in the US, it is hard to see that shutting RIM down there would have been in the public interest, while as a company that did not produce anything, could NTP honestly state that RIM's infringement had caused it irreparable harm? Probably not, especially in light of the concurring opinion written by the four Supreme Court justices.

And that would have been a shame. Many of those who choose to look at the BlackBerry litigation closely may conclude that there is at least a case to make against RIM's conduct and some of the decisions made by senior management at various stages of the litigation. Some may actually decide that RIM actually got away with rather more than it may have deserved to. The fact that there has been so little scrutiny of RIM's patenting policy from investors, for example, could well be a source of great consolation to the company's board as it writes out the cheque to NTP.

With the *eBay* rules in place, NTP could have found itself in a far weaker position as there would have been much less incentive for RIM to negotiate. Instead, RIM could have sought to prolong proceedings for as long as it took for the USPTO to conduct its current investigation into the validity of the original grants made to NTP, in the knowledge that – at the very least – every day that went by was putting ever greater strain on NTP's resources and therefore its ability to fight.

And what RIM could have done in the BlackBerry case is what many other companies are going to do in the future. As a result, it will not only be patent trolls that suffer. It will be small companies without the means to pursue a litigation for years on end and it will be universities and lone inventors who do not make things but who do invent and then license the resulting patents to businesses that turn them into products. How are they now going to get the best deal possible?

Robert Holleyman is right to say that the *eBay* decision will deal a blow to "patent trolls and others who are abusing the legal system". But it is almost certainly going to hurt a lot of other people as well.

A new approach to permanent injunctions

In its *eBay v MercExchange* decision, the Supreme Court decided that, in contrast to previous practice, there should not be a general presumption that a permanent injunction be granted against a defendant that ends up on the losing side in a patent suit. Instead, it ruled that courts should consider such awards on a case-by-case basis, following a four-point test:

- The plaintiff must have suffered an irreparable injury.
- Other remedies available to the plaintiff, such as monetary damages, cannot compensate for the injury.
- When the interests of the plaintiff are balanced against the interests of the defendant, a permanent injunction is an equitable solution.
- The public interest must not be harmed by the granting of a permanent injunction.

Only if all these criteria are met should a court consider the grant of a permanent injunction.