Legal Opinion Letter

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202.588.0302

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APPLYING *eBAY* COURT REJECTS INJUNCTION IN PATENT CASE

by
Blair M. Jacobs

The impact of the Supreme Court's ruling in *eBay v. MercExchange*, 126 S. Ct. 1837 (2006) is already being felt. Prior to the *eBay* ruling, patent holders enjoyed an almost automatic right to injunctive relief upon the finding that a valid patent was infringed. The Supreme Court modified that right in *eBay* by requiring plaintiffs to demonstrate, through four equitable factors, the fairness of an injunction on a case-by-case basis.

In what appears to be the first post *eBay* decision dealing with the injunction issue, *z4 Technologies Inc. v. Microsoft Corp.*, (E.D Tex., No. 6:06-CV-142, June 14, 2006), the U.S. District Court for the Eastern District of Texas ruled that the principles of equity set forth in the four-part test did not call for an injunction against Microsoft, notwithstanding a jury's finding Microsoft liable for willfully infringing z4's patents relating to product activation software. The ruling, issued by Judge Leonard Davis in the Eastern District of Texas, signals a major shift in patent litigation practice and is the first indication of how the *eBay* ruling has quickly become important to the way companies defend against claims of patent infringement.

In April, a Texas jury found Microsoft and Autodesk willfully infringed two of Z4's patents covering methods for limiting unauthorized use of computer software. Both Microsoft and Autodesk use the anti-piracy program in some of their products. The jury ordered the two companies to pay Z4 a combined $133 million in damages.

In refusing Z4's request for a permanent injunction against Microsoft, Judge Davis applied the traditional four-factor test recommended by the High Court, concluding that Z4 would not suffer irreparable harm in the absence of a permanent injunction. The court began its analysis by rejecting z4's argument that a verdict of infringement raises a rebuttable presumption of irreparable harm. Instead, the court diligently analyzed the facts relating to each of the four equitable factors, providing a roadmap of possible considerations in future hearings relating to questions of injunctive relief.

Judge Davis ruled that because Microsoft only uses the infringing technology as a small component of its own software, Z4 would not lose profits, brand-name recognition or market share as a result of Microsoft's infringement. "[I]t is not likely that any consumer of

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Blair M. Jacobs is a partner at the firm Sutherland, Asbill & Brennan's IP Litigation Group.

Microsoft's Windows or Office software purchases these products for their product activation functionality," Davis wrote. Davis also cited Justice Anthony Kennedy's concurring opinion from the *eBay* case in justifying the denial of an injunction. He said Kennedy's comment that if a patented invention is but a small component of the infringing product, monetary damages should be sufficient compensation. Here, the large damages award (one of the largest ever in a patent case in this jurisdiction) convinced the court that monetary compensation was adequate. The court rejected the argument that the existence of a right to exclude, a basic right of patent ownership, implied that monetary damages were inadequate to compensate for patent infringement. The court acknowledged the possible scenario of a violation of the right to exclude resulting in damages not compensable by monetary award, but found that this was not such a case.

Analyzing the final two equitable factors – balancing the hardships between the plaintiff and the defendant, and whether the public would be served by an injunction – the court concluded that the balance of hardships tilted in favor of Microsoft. The court based this finding largely on the possibility of Microsoft's having to redesign and re-release all its Office software products, which currently are distributed in 450 variations in 37 languages. Its Windows product currently has 600 variations in more than 40 languages. The court ruled that the hardship of redesigning these software products outweighed any hardships that z4 would suffer in the absence of an injunction.

Finally, Judge Davis' ruling cited possible harm to public interest if the court were to enjoin Microsoft. "Microsoft's Windows and Office software products are likely the most popular software products in the world," Davis wrote. "Accordingly, the public interest is likely to be disserved if a permanent injunction were entered against Microsoft."

Applying the four equitable factors to the circumstances presented here, the court concluded that imposition of a permanent injunction was not appropriate. The ruling signals a change in the law surrounding injunctions in patent cases. Prior to the *eBay* ruling, Blackberry maker Research In Motion failed to persuade a court to stop an injunction based on the inconvenience its millions of users would have faced had the company been enjoined from offering its wireless e-mail service. Given the Supreme Court's clarification of the law in *eBay*, courts are now apparently becoming more receptive to arguments that injunctions should not issue.

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