



F B A / O C

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Spring 2007

Permanent Injunctions in Patent Cases Following eBay: Going Once, Going Twice . . . (Almost) Gone

by Darin Glasser



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In last summer's *eBay* decision, the Supreme Court revisited the Federal Circuit's general rule that courts should issue permanent injunctions in patent cases as a matter of course absent exceptional circumstances.¹ A unanimous Supreme Court found this approach deficient and held that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards."²

Following *eBay*, a successful plaintiff in a patent suit seeking permanent injunctive relief must satisfy the traditional four-factor test by showing that: (1) it has suffered an irreparable injury; (2) the remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a

remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.

The two concurring opinions in *eBay* provide some guidance on whether the decision should be taken with a measure of skepticism. Chief Justice Roberts, joined by Justices Ginsburg and Scalia, noted that "there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate."³ "[D]iscretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike."⁴

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MESSAGE . . . from the President

by Martha K. Gooding



The FBA/OC is proud to be celebrating its twentieth year – two decades of commitment to enhancing the dialogue between bench and bar and improving the quality of advocacy in our federal courts.

We will mark that very special anniversary in a

number of ways throughout the year, beginning with the redesign of our award-winning newsletter. I am grateful to our newsletter editor, John Mark Jennings, and his hard working Editorial Board for implementing the exciting new “look and feel” to our newsletter, while continuing the same timely and useful content.

We started off the year with a very successful program entitled “The Art of the Destructive Cross-Examination,” featuring veteran trial lawyers Tom Malcolm and John Hueston. The event was attended by more than 50 lawyers and state and federal judges. They were joined by a group of law students from Chapman University, who were treated to stellar cross-examination techniques and tips and introduced first-hand to the kind of quality programs the FBA/OC presents to its members and the legal community. A summary of the event is included in this newsletter. I thank Board member Wayne Gross for spearheading the program.

Some of the additional programs being planned throughout the year include our annual Criminal Practice Seminar in May; our award-winning community outreach Bill of Rights Day in May; a patent litigation program this fall; and a reprise of the popular “Behind the Books” courthouse tour in September. We will conclude the year with our annual Civil Practice Seminar, which will look back at what we have learned in the first year following enactment of the new civil rules on e-discovery and look ahead to what is on the horizon in this important area.

Speaking of looking forward: We are planning our annual Judges’ Night gala, which will be held on October 18, 2007. Save the date! And, of course, we will continue our summertime tradition of Bench & Bar lunches. Judges James V. Selna and David O. Carter have graciously agreed to speak at our June 14 and July 12 lunches, respectively. Please mark these dates on your calendars and plan to bring your summer associates and introduce them not only to our distinguished Orange County judges, but also to the FBA/OC and your fellow Orange County federal practitioners.

We are pleased to welcome our new Orange County Bankruptcy Judge, Judge Robert Kwan, who took the bench in January. At the same time, we wish Judge John Ryan all the best in his well-earned retirement. Check out Jim Bastian’s article on Judge Ryan in this newsletter and watch for an article on Judge Kwan in our next newsletter.

As we mark these changes in our Orange County federal bench, it is a good time to reflect on how much we ask of – and receive from – our judges and court personnel. Our motions are timely heard, our cases tried, the mountains of paper we file and lodge are efficiently processed, and our security is safeguarded when we are in the courthouse. It is appropriate that we consider how we can be of assistance to our local judiciary. I ask each of you to consider the following two issues and how you and your colleagues or firm can be of help.

The first issue is the Pro Bono Civil Rights Panel. The Court is in need of additional law firm members on the Panel. There are a number of prisoner civil rights cases that have survived dispositive motions and are awaiting appointment of trial counsel. Please read Mansi Shah’s article in this newsletter about the Panel. In April, the FBA/OC is hosting a special luncheon for the managing partners and pro bono coordinators of many of the larger Orange County firms, at which they will hear from a number of our Central District judges about the Panel, the pending cases awaiting assignment, and how attorneys and their firms can become involved.

The second issue is judicial compensation. The lack of appropriate compensation for our federal judiciary has been an unresolved problem

for so long that Chief Justice Roberts recently described it as “a constitutional crisis that threatens to undermine the strength and independence of the federal judiciary.” Indeed, Chief Justice Roberts devoted his entire 2006 year-end address to the issue. We are hopeful that, with the additional focus brought to this issue by the Chief Justice’s comments, the time may finally be right to obtain corrective action in Congress. I urge all of you to contact your Congressional representatives and encourage them to solve this problem, beginning with eliminating the link between Con-

gressional and judicial pay raises. For more detailed information on the subject, see the FBA/OC website.

Thank you for your continued support of the FBA/OC. I look forward to seeing you at our events throughout the year and to having your firms participate as FBA/OC sponsors. Sponsorship information – including the benefits sponsor firms receive – is available at fbaoc.com. It is a privilege to serve as President of the FBA/OC this year, and I hope you will feel free to contact me with your ideas and suggestions.

Invitation for Public Comment

The current term of the Honorable Thomas Donovan, U.S. Bankruptcy Judge for the Central District of California, is due to expire in March 2008. The U.S. Court of Appeals for the Ninth Circuit is considering the reappointment of the judge to a new term of office of 14 years. The court invites comments from the bar and public about Judge Donovan’s performance as a bankruptcy judge. The duties of a bankruptcy judge are specified by statute, and include conducting hearings and trials, making final determinations, and entering orders and judgments.

Members of the bar and public are invited to submit comments concerning Judge Donovan for consideration by the Court of Appeals in determining whether or not to reappoint him. Anonymous responses will not be accepted. However, respondents who do not wish to have their identities disclosed should so indicate in the response, and such requests will be honored. Comments should be submitted no later than **Monday, April 30, 2007** to:

Gregory Walters, Circuit Executive
Office of the Circuit Executive
P.O. Box 193939
San Francisco, CA 94119-3939
Attn: Reappointment of U.S. Bankruptcy
Judge Thomas Donovan
Facsimile: 415.355.8901

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Permanent Injunctions -- Continued from Page 1

Justice Kennedy, joined by Justices Stevens, Souter, and Breyer, noted that the existence of a right to exclude which is at the heart of patent law does not dictate the remedy for a violation of that right.⁵ Justice Kennedy further observed that rapid technological and legal developments in the patent system may affect the calculus under the four-factor test. Specifically, Justice Kennedy called into question the suitability of an injunction where the patented invention is “but a small component of the product,” and where the patent is for a business method with “potential vagueness and suspect validity.”⁶ Of significant, and perhaps portentous, note is Justice Kennedy’s comment that those firms using patents “not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees” can use the threat of an injunction “as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”⁷

The Impact of eBay

In situations where patentees are manufacturing products covered by their patents or “practicing the patent” the district court decisions applying *eBay* indicate that traditional notions of equity will nearly always lead to the issuance of a permanent injunction. On the other hand, where the patentee is **not** practicing the patent, and is not competing with those that infringe the patent, the post-*eBay* cases have declined to issue permanent injunctions.

While this dichotomy of decisions may be the necessary outcome of the four-part balancing test elucidated by the Supreme Court, the *eBay* decision does not on its face mandate such a result. In fact, the Supreme Court expressly contemplated that such non-practicing patentees “may be able to satisfy the traditional four-factor test, and [saw] no basis for categorically denying them the opportunity to do so.”⁸

Domino Theory of eBay

Post-*eBay* decisions reveal a result-oriented application of the four-factor test. In cases where the patentee is manufacturing or selling a product covered by the patent, courts continue to grant

permanent injunctions virtually automatically. The real impact of *eBay* has occurred in the situation of a non-manufacturing patentee. Post-*eBay* courts have uniformly denied permanent injunctions to non-manufacturing patentees, despite the Supreme Court’s exhortation against such categorical denials. Moreover, the very factors advanced in support of an injunction for manufacturing patentees that the principal value of a patent is the right to exclude, that a patentee’s injury cannot be atoned for in money, that the hardship imposed on an infringer is the consequence of a patent infringement, and that promoting a strong patent system serves the public interest are equally present in cases involving non-manufacturing patentees. The following cases illustrate how courts can apply and indeed have applied the traditional four-factor test to grant injunctions to practicing patentees, irrespective of other specific facts.

Adequacy of Legal Remedies

In *Telequip Corporation v. The Change Exchange*, 2006 WL 2385425 (N.D.N.Y. Aug. 15, 2006), the court noted that “monetary damages are not an adequate remedy against future infringement because the principal value of a patent is its statutory right to exclude.”⁹ According to *Telequip*, and the cases upon which it is based, the very nature of patent law dictates that the second factor—inadequacy of legal remedies weighs in favor of a permanent injunction irrespective of whether the patentee is practicing the patent. This approach, though sound in logic, may be inconsistent with Justice Kennedy’s concurrence in *eBay* (“the existence of a right to exclude does not dictate the remedy for a violation of that right”).

Irreparable Injury

In *Wald v. Mudhopper Oilfield Services, Inc.*, 2006 WL 2128851 (W.D. Okla. July 27, 2006), the court noted that while “irreparable injury” often evades easy definition, it is “often suffered when the injury can[not] be adequately atoned for in money . . . or when the district court cannot remedy [the injury] following a final determination

on the merits.”¹⁰ *Wald* therefore suggests that if money damages are not adequate – which *Telequip* finds is the norm in patent cases – then irreparable injury often exists.

Balancing of Hardships

In *Smith & Nephew, Inc. v. Synthes*, 2006 U.S. Dist. LEXIS 91851 (W.D. Tenn. Sept. 28, 2006), the court noted that any hardship imposed on the infringer when the injunction is imposed “is the consequence of a patent infringement.”¹¹ Similarly, in analyzing the relative hardships of the patentee and the infringer, the court in *3M Innovative Properties Co. v. Avery Dennison Corp.*, 2006 WL 2735499 (D. Minn. Sept. 25, 2006), cited to an earlier Federal Circuit opinion that held: “One who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected.”¹²

Public Interest

Perhaps not surprisingly, the Marshall Division of the Eastern District of Texas has relied on the public’s “interest in maintaining a strong patent system” in analyzing the public interest factor of the four-factor permanent injunction test. In *Tivo Inc. v. Echostar Communications Corp.*, 446 F. Supp. 2d 664 (E.D. Tex. Aug. 17, 2006), the court noted that the public interest is served by enforcing an adequate remedy for patent infringement.¹³ The court in *Telequip* noted that the public interest would not be disserved by issuing an injunction because, without the right to obtain an injunction, the right to exclude granted to patentees would only have a fraction of the value it was intended to have.¹⁴

These four factors will likely be satisfied by the fall of the first domino – *i.e.*, whether the patentee manufactures or sells a product covered by the patent at issue. These cases illustrate the Domino Theory of *eBay*.

The clear divide between practicing patentees and non-practicing patentees need not be explained as result-oriented decision making. The post-*eBay* decisions that **do** analyze the specific facts presented to the court identify the following circumstances as important under the four

factors: lost market share; damage to reputation for innovation; loss of customers; price erosion; value erosion; encumbrance on ability to invest in research and development; a patentee’s direct competition with an infringer; and the ability of the public to buy the product from patentee. Because each of these circumstances can exist **only** where the patentee is competing with the infringer, perhaps the post-*eBay* divide should come as no surprise.

Non-Practicing Patentees

In cases where the patentee is not practicing the patent, post-*eBay* courts have uniformly denied entry of permanent injunctions. In a representative case, *z4 Techs. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. June 14, 2006), a federal court in Texas denied plaintiff’s motion for a permanent injunction after a jury found that defendant’s Microsoft Office and Windows software infringed z4’s patents on product activation technology. The z4 case illustrates the importance of a patentee’s actual competition with the infringer to the decision whether to grant a permanent injunction. Although the plaintiff had *attempted* to commercialize its invention, the court found that all four factors weighed against granting an injunction.¹⁵

First, although the plaintiff claimed to have made “tremendous efforts” to commercialize its invention, the court found that plaintiff was not irreparably harmed by Microsoft’s sale of its products because “[t]here is no logical reason that a potential consumer or licensee of z4’s technology would have been dissuaded from purchasing or licensing z4’s product activation technology for use in its own software due to Microsoft’s infringement.”¹⁶ Second, because Microsoft’s use of the patent did not exclude plaintiff from selling its technology to anyone other than Microsoft, money damages would be adequate to compensate plaintiff.¹⁷ Third, the court found that the balance of the hardships weighed in favor of Microsoft because of the difficulty and expense of redesigning, retesting and repackaging Office and Windows “to remove a small component such as product activation.”¹⁸ Finally, the court found that the public was likely

to be disserved if an injunction issued because even a minor disruption to the distribution of Microsoft's products "would have an effect on the public due to the public's undisputed and enormous reliance on these products."¹⁹

Perhaps these post-*eBay* results, which are divided between practicing and non-practicing manufacturers, are nothing more than the predictable outcome of applying the four-factor permanent injunction test. The absence of certain facts that can only exist in situations where the patentee is manufacturing a covered product (such as lost sales, damage to reputation, price erosion, etc.), certainly makes it more difficult for a patentee to establish irreparable harm and inadequacy of legal remedies. Importantly, however, the Supreme Court in *eBay* did not hold that a

patentee's failure to manufacture or sell a covered product precludes the issuance of a preliminary injunction.

One consequence of *eBay* is that, where permanent injunctions are denied, courts must now address the unique damages issue where an adjudicated patent infringer is permitted to continue infringement after trial. Will courts now be required to grant compulsory licenses? Will these licenses be at the "reasonable royalty" determined at trial for purposes of damage calculation? Will the royalty be trebled to account for willfulness? Will a trebled royalty eviscerate profits to such a degree as to eliminate the incentive for the infringer to make the infringing product? This unique damages situation has been addressed in at least two cases since *eBay*.

Ninth Circuit Judicial Conference Update

by Edward S. Kim

The Ninth Circuit Judicial Conference consists of members of the bench and bar who discuss and organize means to improve the administration of justice within the circuit. The Conference serves to improve education and communication between the bench and bar, as well as between the court of appeals and the district courts within the circuit.

In each judicial district, members of the bench and the leaders of Federal Bar Associations and other bar organizations within the district select members of the bar to serve as lawyer representatives to the annual Ninth Circuit Judicial Conference. Lawyer representatives from the Central District include members from the Orange County Federal Bar Association, including Paul Gale (Ross, Dixon & Bell), Jeff Golden (Weiland, Golden, Smiley, Wang Ekvall & Strok), Martha Gooding (Howrey Simon Arnold & White), Todd Gordinier (Bingham McCutchen), Andra Greene and Layn Phillips (Irell & Manella), Eric Landau (McDermott, Will & Emery), John Sganga, Jr. (Knobbe Martens Olson & Bear), and Dean Zipser (Morrison & Foerster).

This year, the members of the Ninth Circuit Judicial Conference are organizing events to improve relationships between the bench and Congress, which will include a Spring Congressional meeting between members of the bench and Congress to discuss issues affecting the judiciary and the Ninth Circuit, such as continued discussions concerning the proposal to split the Ninth Circuit, and the funding of the judiciary and potential threats to judicial independence. The members of the Conference are also organizing educational programs as well as community outreach programs.

The 2007 Ninth Circuit Judicial Conference will take place July 16-19, 2007, at the Sheraton Waikiki in Oahu, and will be attended by circuit, district, bankruptcy and magistrate judges, along with lawyer representatives. The Central District also holds its own annual conference. This year the Central District Conference will take place on April 27-28, 2007 at the St. Regis, Monarch Bay in Dana Point, California. The theme for the Conference will be "High Profile Issues Confronting Our Courtrooms and Community."

