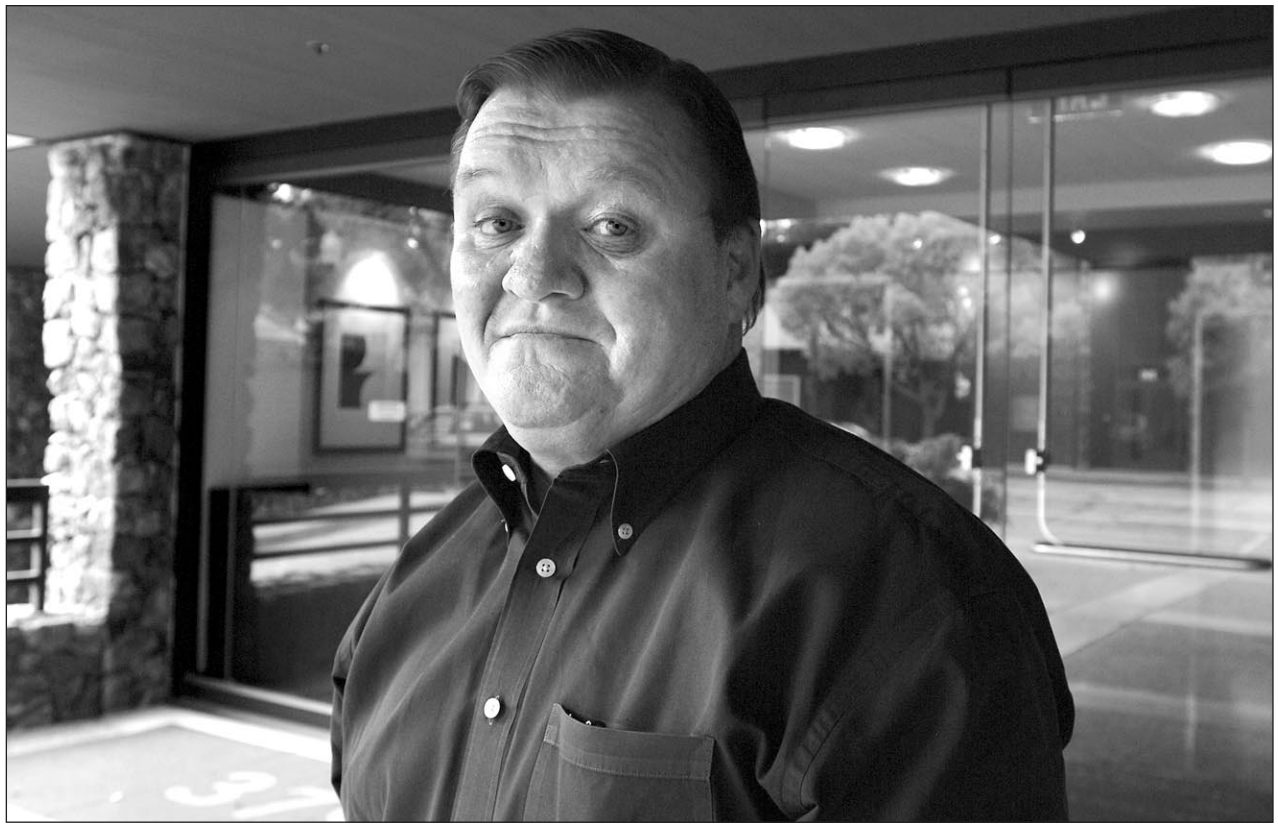
Immunity Community



S. TODD ROGERS / Daily Journal

"We're not in this for financial gain. We're in this for scientific progress. Without the threat of an injunction, there's no incentive to settle. Organizations like research institutions need the leverage just to level the playing field," said Daniel J. Furniss, who represents the Commonwealth Scientific and Industrial Research Organisation.

By Craig Anderson
Daily Journal Staff Writer

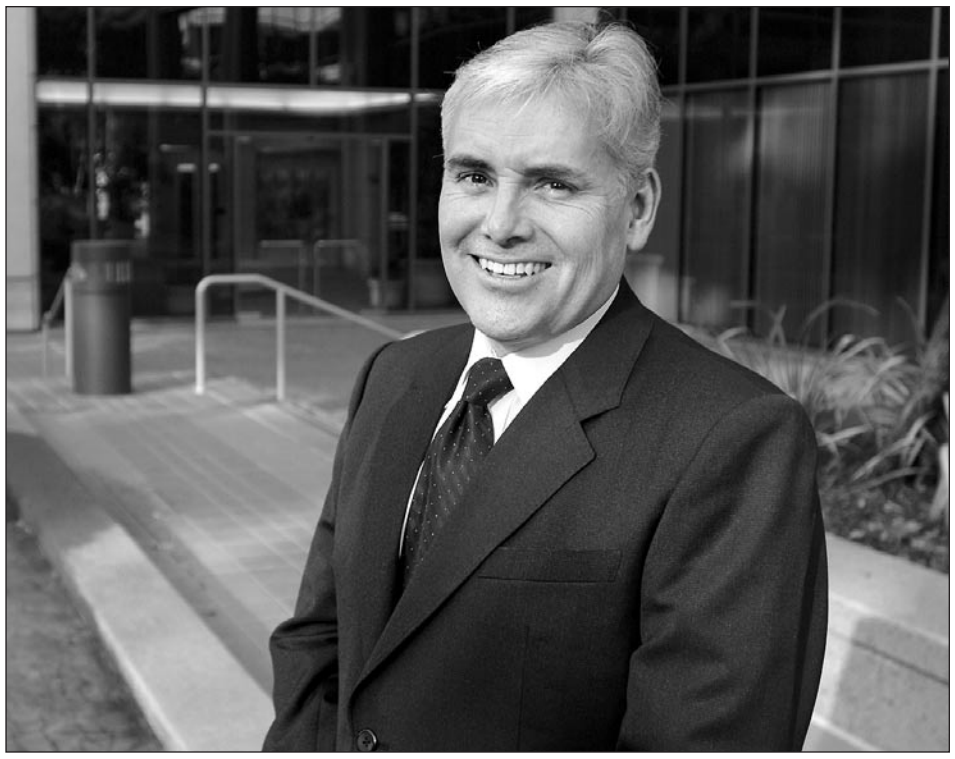
Government and university research institutions are major players in the patent world, parlaying their inventions into big money in the form of licensing revenue and royalties while doing work they tout as being in the public interest.

But their ability to collect large sums for their inventions may be in jeopardy because of the U.S. Supreme Court's ruling in *eBay Inc. v. MercExchange LLC*, 126 S.Ct. 1837 (2006), which tightened the rules on granting permanent injunctions in patent infringement cases. A powerful collection of large corporations says research organizations do not deserve injunctions any more than other patent holders that do not make products using their inventions.

In the pre-*eBay* world, any organization — whether a government research institution or a for-profit patent-holding company — that proved its patents had been infringed was able to get a permanent injunction against the infringer. An injunction is a powerful tool, because it often forces an infringer to settle the case on terms very advantageous to the patent holder.

Post-*eBay,* attorneys on both sides are sorting out how the U.S. Supreme Court's rules will work in practice. Government and university research institutions are worried they will be treated the same as companies that don't manufacture their patented technology, but instead hold patents to sue for infringement, and will be denied lucrative injunctions to protect the value of their inventions. Non-manufacturing entities have a far more difficult time convincing courts to grant them injunctions in patent cases.

The first significant test comes April 11, when the U.S. Court of Appeals for the Federal Circuit considers whether



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CSIRO promised a wireless industry group that it would license its patent to any interested party on reasonable and nondiscriminatory terms, according to attorney Richard Vasquez.

an Australian research organization, the Commonwealth Scientific and Industrial Research Organisation, is entitled to a permanent injunction blocking a number of technology companies from using its patented wireless technology. CSIRO develops technology that can be used to create start-up companies and or be licensed to other companies to fund further research.

The case is not the only point of tension between public and private research institutions and corporations over patent issues.

The number of patents obtained by universities has increased 16-fold since 1980, according to Stanford Law School professor Mark Lemley in a research paper last year provocatively titled "Are Universities Patent Trolls?" He argues that universities are increasingly sophisticated both in recognizing the value of their inventions and in wielding political clout to block patent reform efforts that would, among other proposals, limit injunctive relief.

Lemley writes that he has spoken to many corporate executives who believe universities, eager for the money from their patents, are increasingly likely to grant lucrative exclusive licenses to one company instead of licensing their inventions to anyone willing to pay.

In one high-profile example, a federal jury awarded a small company, Eolas Technology, a verdict of more than $500 million against Microsoft Corp. in 2003 because its Internet Explorer software infringed Eolas' browser-based software. The patent was licensed from the University of California, which shared in the jury verdict and eventual settlement.

"It's not necessarily problematic that universities enforce their patents," Lemley said. But some of the developments, in biotechnology, are "the basic building blocks of knowledge."

"There are more patents, and more high-profile ones," Lemley said. "There is a growing sense of frustration by people in the corporate world."

U.S. District Judge Leonard Davis of the

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Patent

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Eastern District of Texas ruled last summer that CSIRO should get an injunction because the harm it has suffered cannot be remedied just with monetary damages. It was the first research institution to win an injunction in a patent infringement case since the *eBay* decision two years ago.

The Supreme Court, in its *eBay* decision, rejected granting injunctions automatically upon a finding of infringement and said a decision to grant one should be left to the discretion of the trial judge under a four-part test. Under that test, a plaintiff seeking injunctive relief must prove that it has suffered irreparable harm, that monetary damages are insufficient to compensate for the loss, that an injunction is warranted given the "balance of the hardships" between the plaintiffs and defendants and that the public interest would be served by granting it.

"Because the work of research institutions such as CSIRO is often fundamental to scientific advancement, it merits strong patent protection," Davis wrote. "Furthermore, the public interest is advanced by encouraging investment by research organizations into future technologies and serves to promote the progress of science and the useful arts."

But a host of major technology companies, including Microsoft Corp., Intel Corp., and Hewlett-Packard Co., argue that CSIRO is seeking an injunction for the same reason any other patent holder wants one: to gain a disproportionate advantage in settlement negotiations.

They say CSIRO, for all of its high-minded talk about science, is no different than NTP Inc., the Virginia patent-holding company that in 2006 got a $612 million settlement from Research in Motion, the Canadian company that makes the popular BlackBerry handheld communications device, to avoid an injunction that would have shut it down.

"They chose to go for the BlackBerry advantage," said Richard Vasquez, a Walnut Creek-based attorney with Morgan Miller Blair, which represents several technology companies that have been sued by CSIRO. "The judge gave them this bargaining chip."

Vasquez said CSIRO promised the Institute of Electrical and Electronics Engineers, a wireless industry group, that it would license its patent to any interested party on reasonable and nondiscriminatory terms.

"Under these facts, money damages provide not just an adequate remedy, but the precise remedy CSIRO expected," Vasquez wrote in an amicus court brief to the Federal Circuit. *Commonwealth Scientific and Industrial Research Organisation v. Buffalo Technology Inc.*, 2007-1449. CSIRO has litigation against a number of other technology companies, several of which are pending before the Federal Circuit.

Daniel Furniss, a Palo Alto-based partner with Townsend and Townsend and Crew who represents CSIRO, rejects Buffalo Technology's conclusion that the research group will not suffer irreparable harm without an injunction.

Furniss argues that Buffalo's ongoing infringement of CSIRO's patent is frustrating the organization's ability to license its technology and forcing the organization to pay ongoing litigation costs and hindering its ability to attract top scientists.

"We're not in this for financial gain," Furniss said. "We're in this for scientific progress. Without the threat of an injunction, there's no incentive to settle. Organizations like research institutions need the leverage just to level the playing field."

Richard Kelly, a partner with Oblon, Spivak, McClelland, Maier & Neustadt in Virginia who represents Buffalo Technology, said he believes CSIRO's willingness to offer to license its technology on "reasonable" terms dooms its argument for an injunction.

"You're saying the whole world is entitled to a license, just pay us our money," Kelly said. "I don't think this is going to decide anything about research institutions."

Roy Englert Jr., an attorney with Robbins, Russell, Englert, Orseck, Untereiner & Sauber in Washington, D.C., who represents several nonprofit research institutions, including SRI International at Stanford University, disagrees.

Englert argues in court papers that restricting a research institution's ability to get an injunction would encourage companies to infringe the patent, wait for the lawsuit, and end up paying the same "reasonable royalty" it would have had to pay in the first place.

"A de facto compulsory licensing scheme would wreak a variety of harmful and irreparable consequences on [research institutions]," Englert writes. "It would rob them of the ability to pursue licensing arrangements tailored to the long-term success of a particular invention, and it would artificially depress the … licensing fees [research institutions] can recover, making it even harder … to recruit and retain the talented innovators essential to their success."

Ethan Horwitz, a New York-based partner at King & Spalding who is not involved in the case, said universities research institutions have a strong public policy argument in favor of injunctions. "They can build a better story than an individual inventor about why they are more entitled to an injunction," he said.

But he said that does not mean the Australian government organization is necessarily going to win its case, or that the outcome of the CSIRO litigation will determine how other research institutions will fare in patent battles.

Horwitz said it will take a series of court rulings for corporations and attorneys to get a better feel for the shape of the post-eBay legal world.

"People are going to walk away from the decision in this case still not knowing what's going on," he said. "It's going to take a bunch of decisions."