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CSIRO v. Buffalo Technology: A Permanent Injunction Trump Card for Patent Trolls?

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The recent decision in *CSIRO v. Buffalo Technology, Inc.* just might have been the trump card traditional patent trolls could use to visit the permanent injunction promised land. 2007 U.S. Dist. LEXIS 43832 (E.D. Tex. Jun. 15, 2007). Unfortunately for the trolls, however, the impact of this decision will not be as far-reaching and applicable to their business models as they might hope.

Background – *eBay v. MercExchange*

The patent injunction issue has been widely discussed since the U.S. Supreme Court considered it last year. In *eBay v. MercExchange*, 126 S.Ct. 1837 (2006), MercExchange was a patent-holding and non-manufacturing entity that held a business-method patent for an electronic market designed to facilitate the sale of goods between consumers. In this case, the U.S. Supreme Court ultimately decided that patent litigation is no different than any other case in which a permanent injunction is sought, and as a result, held that a permanent injunction's propriety should be judged according to the well-established principles of equity. Thus, the following four factors must be satisfied before a permanent injunction will issue after a finding of patent infringement: (i) the plaintiff has suffered an irreparable injury; (ii) remedies available at law, such as monetary damages, are inadequate to compensate for this injury; (iii) an equitable remedy is warranted, given the balance of hardships between the plaintiff and the defendant; and (iv) the public interest would not be disserved by a permanent injunction. *eBay*, 126 S.Ct. at 1839.

Permanent Injunction Granted for a Non-Manufacturing Entity

CSIRO represents the first patent infringement case in which a non-manufacturing entity demonstrated that it was deserving of a permanent injunction, absent either any traditional commercialization of its patents or any direct competition between the parties.

The Commonwealth Scientific and Industrial Research Organization ("CSIRO") is an Australian governmental scientific research organization that "develop[s] technology that can be used to create start-up companies and/or be licensed to firms to earn commercial royalties to fund other research." *CSIRO*, 2007 U.S. Dist. LEXIS 43832 at *2. CSIRO easily can be considered a non-manufacturing entity. In 1992, CSIRO developed technology that greatly enhanced indoor wireless internet network performance, and applied for U.S. patent protection thereon. CSIRO intended to license the resulting patents, and to generate revenue that would fund its other ongoing research projects. CSIRO sought to license Buffalo Technology, which was producing indoor wireless products covered by these CSIRO patents, but eventually was forced to litigate.

The case was submitted on summary judgments of validity and infringement, and the court ultimately decided that the CSIRO patents were valid and infringed. CSIRO sought permanent injunctive relief, and the court applied the four-prong equitable test from *eBay* in granting CSIRO's injunction request.

CSIRO Would Have Suffered Irreparable Harm

Even though CSIRO and Buffalo are not direct competitors, the court found that CSIRO would suffer irreparable harm if Buffalo was not enjoined from selling their infringing products because CSIRO is a research institution that "relies heavily on [its] ability to license its intellectual property to finance its research and development." *Id*. at *10. These licensing revenues fund further research for frontier projects and the forecasted licensing royalties are usually already allotted to certain projects. The court also found that CSIRO's harm was not only financial –CSIRO's reputation is important to succeed in the competition with other research entities for resources, ideas and minds. Forcing CSIRO to spend millions of dollars in litigating their patents results in lost research capabilities and lost opportunities – and the court found that the harm of lost opportunities is irreparable because they "already belong[] to someone else." *Id.* at *12.

CSIRO's Legal Remedies Were Inadequate

CSIRO's remedies at law were inadequate, according to the court, because a royalty payment to CSIRO based on Buffalo's past sales inadequately reflected the worth of the patent, today, to Buffalo. Further, such a compulsory royalty payment does not necessarily include other "non-monetary license terms that are as important to a licensor such as CSIRO." *Id.* at *16. The court also advised that because the patent was directed to a technology that was a very large component of Buffalo's infringing products, monetary damages are less able to compensate CSIRO for Buffalo's current and future infringement. In this vein, the court cited Justice Kennedy's concurrence in *eBay,* advising courts to consider that legal damages may be sufficient when the invention is a small component of the infringing product, but writing that an injunction may be more necessary when a product embodies a patent. *Id*. at *15-16; *eBay*, 126 S.Ct. at 1842 (Kennedy, J. concurring).

The Balance of Hardships Tilted to CSIRO

CSIRO would have been forced to accept a compulsory license if a permanent injunction was not issued. On the other hand, Buffalo would have been forced to shut its infringing business it were enjoined. However, the court reasoned, "mere hardship incurred in the process of ceasing operations is not sufficient" to tip the balance. *Id.* at *17. An injunction only harms Buffalo in a monetary sense, whereas for CSIRO, the lack of an injunction has farther reaching effects – it would harm CSIRO financially, and the financial harm will poison the remainder of CSIRO's operations.

Granting CSIRO an Injunction Did Not Harm the Public Interest

The court reasoned that permanent injunctions serve the public interest in maintaining a strong patent system and enforcing patent rights – there are, however, certain situations in which an injunction would be contrary to the public interest. This was not one of those situations said the court. *Id.* at *21. Buffalo's wireless network products were not essential for public health or welfare, and the same products are available from many

other non-infringing sources. *Id.* CSIRO's work is "fundamental to scientific advancement" and as such, is worthy of "strong patent protection." *Id.*

Injunctions for Non-Manufacturing Entities Going Forward

In light of *eBay* and now *CSIRO*, it does not seem likely that courts will be more willing to grant permanent injunctions to non-manufacturing entities, as such entities will still suffer from the same problems in seeking the injunctions. *CSIRO*'s holding will not be applicable to the model of traditional patent trolls – its impact is necessarily limited by its fact-intensive nature. The court made a pronounced effort to describe CSIRO's publicly beneficial goals and the resulting allocation of patent royalties received to achieve such goals. One thing was made clear – the harm of not granting CSIRO an injunction would have had far-reaching and non-recompensable effects on its research and ability to innovate. On the other hand, a traditional non-manufacturing patent troll's business – royalties derived from patent litigation and the threat thereof – is considerably different than CSIRO's, plain and simple. Any attempt by such a troll to cloak itself in CSIRO's robes, particularly in the necessity of its royalty stream in the context of its business, will be highly attenuated and ultimately unsuccessful. The business of patent trolls, exaction of a royalty payment by litigation, will continue to be at least reparably harmed, and injunctions should continue to be denied, even after *CSIRO*.

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