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FEDERAL TRADE COMMISSION

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FEDERAL TRADE COMMISSION

HEARING ON:) Matter No.
THE EVOLVING IP MARKETPLACE) P093900
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THURSDAY, FEBRUARY 12, 2009

Conference Center
Federal Trade Commission
601 New Jersey Avenue, N.W.
Washington, D.C. 20580

The above-entitled hearing was held, pursuant
to notice, at 9:33 a.m.

P R O C E E D I N G S

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2
3 MS. MICHEL: Good morning. Welcome back to
4 those of you who were here yesterday. I am impressed by
5 your stamina. Hello to everybody watching on the web-
6 cast. I have heard from many people out there watching
7 the webcast. I know there is a good sized audience up
8 there. The webcast stays up on the FTC website for
9 others to watch later.

10 It's a great resource. I encourage you to take
11 advantage of it, if you're interested in this field. We
12 will eventually also have a transcript posted of both
13 yesterday's proceedings and today.

14 I will do my quick security announcements. For
15 those of you here, if there's a fire alarm or something
16 like that, we like to try to congregate across the
17 street by Georgetown and check off the names of everyone
18 who came in and make sure that you got out so we don't
19 have to run in the building and see where you are.
20 Thank you.

21 So now is the second day of this February series
22 of hearings on the FTC's series of hearings on the
23 evolving IP marketplace. Throughout the series, we'll
24 be examining the operation of markets for patents and
25 technology and how different legal doctrines affect the

1 operation of those markets.

2 Today we're focusing on permanent injunctions
3 after eBay. We will be releasing a press release in the
4 next couple of days describing the next hearings that we
5 will be holding in March, and April in D.C. and in May in
6 Berkeley.

7 We will continue to take comments through May
8 15th. I understand there may have been some problems with
9 the comment submission website last week, but I believe
10 it's back up now, and we welcome all input.

11 Before we get started, I want to announce we
12 will try a change for the schedule for today from what
13 is on the agenda that you have. We will first have two
14 presentations to lay the ground work of what's been
15 happening since eBay. After that we will take a short
16 break, and then we will have a two-hour panel discussion
17 with a top notch group.

18 I will now turn it over to Erika Meyers, who is
19 really taking the laboring oar on this issue for us to
20 introduce our first set of speakers. Thank you.

21 MS. MEYERS: Good morning, and again welcome
22 back to the remedies portion of the FTC's hearings on
23 the Evolving IP Marketplace. I think one of the good
24 things about being able to speak two days in a row is
25 when you forget to introduce yourself on the first day,

1 you get a second chance on the second day.

2 So I am Erika Meyers. In addition to being the
3 person you see scurrying around of the conference center
4 on days when we're live, I'm also an antitrust lawyer in
5 the Bureau of Competition.

6 Today we're going to switch gears from damages
7 and talk about injunction law and a little bit of
8 willfulness. This morning we will explore permanent
9 injunction cases in the wake of the Supreme Court's *eBay*
10 decision.

11 Our wonderful panelists will examine the ways
12 the courts have analyzed injunctions, including the role
13 of economic evidence and the analysis and any trends
14 that have developed.

15 We're going to start with two presentations.
16 Steve Malin will provide an empirical look at the
17 analysis in the decisions following *eBay*. His analysis
18 looks at the factors courts have used in determining
19 whether to grant or deny an injunction. Steve is
20 counsel at Sidley Austin in Dallas Texas, where his
21 commercial litigation practice emphasizes patents and
22 other intellectual property rights. He has represented
23 clients on both sides of the injunction issue.

24 Steve has an L.L.M. in intellectual property and
25 information technology from the University of Houston

1 I, and some colleagues of mine in the patent
2 community, began looking at the post-eBay cases to try to
3 find trends, to try to find threads of discussion that
4 would be useful for us in our litigation practice.

5 What we came upon very quickly was that the
6 legal maxims and propositions and platitudes that you
7 see in the cases are often repeated, but frequently they
8 don't signify what the result was going to be.

9 So we made a decision that our analysis was
10 going to focus on the case facts and see if, apart from
11 the legal discussion, there was a thread of factual
12 similarities between cases of certain types that would
13 help us to predict the future of how these cases were
14 going to go, and that is what I am going to talk about
15 today.

16 I would like to thank my colleague, Ari
17 Rafilson, of my office in Dallas for assistance with
18 this.

19 So, what we did is we took an initial review of a
20 number of cases and we developed a list of factors, 28
21 different factors that we found were considered by the
22 courts over a period of time, and we created a
23 questionnaire. You see a copy of it there on the

1 It needed to have had a substantive discussion
2 of the injunctive question rather than just sort of a
3 formulative discussion -- the Judge
4 needed to specifically discuss case facts. For
5 instance, if a party alleged a number of different facts
6 and the court didn't discuss it, it was not included in
7 our study.

8 What happened, for instance, on the question of
9 direct competitors, if the court commented on it, then
10 it was included in our study. The answer would either
11 be yes, there was a direct competitor, direct
12 competition relationship or no, so for any particular
13 factor when we filled out the questionnaire it was, yes,
14 the fact exists and was discussed; no, the fact was
15 discussed but it did not exist, or the fact was
16 irrelevant and not discussed, and it was not included.

17 So we ended up with -- each particular case has
18 a certain number of facts, and that is what we
19 catalogued, and that is what I'm going to present to
20 you.

21 There was a total of 49 cases that made it in
22 our survey during the dates that you see on the
23 PowerPoint. Cases we threw out were because they didn't
24 have a substantive analysis or they included some other
25 basis of decision, *et cetera, et cetera*.

1 One other thing we did was the initial group
2 that began this process had ten lawyers in it, and after
3 one of the lawyers would fill out a questionnaire,
4 we would always have a second pair of eyes review it, so
5 a second lawyer would fill it out independently. The
6 two would have a bit of a conference committee and work
7 out any differences.

8 In the second half, the remaining 25 of the
9 cases, our second pair of eyes review was Ms. Erika
10 Meyers of the FTC, for which we thank her very much, so
11 we essentially worked it out with these, and I'm here to
12 present you what we found. Hopefully you've bought into
13 the legitimacy of the study.

14 So we end up with this big spreadsheet, okay?
15 It has all the cases, has all factors, what they
16 decided, *et cetera*. There are many types of relevance
17 that you can get from this. Today I'm going to focus on
18 two.

19 The first type of relevance, the first set of
20 findings I'm going to give to you are facts that were
21 mentioned in as many cases as possible, so we simply
22 took the question of this particular factor, if it was
23 mentioned in more than 25 percent of the cases, then I'm
24 going to present to you those findings irrespective of
25 whether the answer is yes or no. So it's relevant

1 found, so practicing patentee, that is a patentee who
2 makes a product that falls within at least one of the
3 asserted claims we see mentioned in 43 of 49 cases, so
4 this is an important factor.

5 When the answer was yes, there was a practicing
6 patentee, the grant rate was 83 to 85 percent. When the
7 answer was no, the grant rate was just under 50 percent,
8 so there is a fairly significant difference. The
9 difference in grant rate between yes and no is 40
10 percent, so we see this is a very important factor to
11 the courts and it's not a death or a death sentence you
12 might say if the answer is no because it's still almost
13 50 percent, but it's a substantial difference in the
14 cases.

15 So let's move to the related concept of direct
16 competition, so we find the question of direct
17 competition was specifically addressed by the court in
18 42 of 49 cases, again a very important factor to the
19 courts. The grant rate when the answer is yes is again
20 very high, approaching 90 percent. As I think a lot of
21 us would expect, in reviewing these cases, this is
22 consistent with that. When they were not direct
23 competitors, the grant rate was between 20 and 30
24 percent.

25 So that is an even more significant difference

1 in the answer yes versus the answer no, so if you have
2 one of these cases or you're assessing it, you're
3 litigating it, whatever, and you see your fact is yes
4 versus no, you can see that that's a difference maker
5 for the judges, at least statistically in the cases that
6 we have looked at.

7 Now, a bit of a disclaimer I might say. We're
8 here simply talking about correlation. We can never
9 know what actually caused the Judge to do anything. We
10 didn't -- in this study we didn't get into whether any
11 particular factor is good or legitimate or actually
12 caused the court to do anything. We simply followed
13 that process that I told you at the beginning, and for
14 direct competition with the defendant, this is what we
15 ended up with.

16 We have another common theme we see in these
17 cases. Was there lost market share for the plaintiff to
18 the defendant? Again if the answer is yes, you have a
19 grant rate that is almost 90 percent. It's almost a
20 lock, it appears, if you have that in your case. If the
21 answer is no, the grant rate is much lower. It's only
22 about a quarter, 25 percent, so again big difference in
23 terms of lost market share, over 60 percent between yes
24 and no.

25 Moving on, and then by the way, lost market

1 share still important, mentioned in 36 of 49 cases so
2 that's at least two-thirds, so that's important to the
3 judges.

4 Willful infringement. Now, we decided to
5 include willful infringement as a yes in our analysis if
6 it was found in the case, even if it wasn't
7 discussed in the injunction section. It was simply an
8 administrative decision.

9 So in the cases in which willful infringement
10 was found, 75 percent grant rate, and by the way, the
11 overall grant rate of all 49 cases was just over 75
12 percent, between 75 and 76 percent, so if there was
13 willful infringement, that hits that average almost
14 exactly, about 75 percent.

15 No willful infringement, it drops to
16 significantly less than the average grant rate. It's
17 down to about 40 percent, so that's about a 35 percent
18 difference between yes and no, so that's still fairly
19 significant at least from a litigator's point of view,
20 considered in just over half the cases or found or
21 discussed in just over half the cases so still
22 important.

23 What about the patentee's reputation for
24 innovation, their reputation as a market maker or first
25 to market, these factors that we see discussed pretty

1 rate, so that's something a judge who is going to grant
2 the injunction might reach out and say, Hey,
3 you've given no evidence of harm to your
4 customers or I conclude there's no harm to your
5 customer, so 50 percent difference in grant rate, that's
6 fairly significant.

7 A subset of harm to the defendant we looked at
8 is whether there was a minor impact on the defendant's
9 sales. Sometimes you see in these cases a balancing.
10 The court will say, well, this is just a small
11 percentage of their sales or it will only affect it 5
12 percent or 10 percent. That's what this goes to.

13 It's pretty important, mentioned in 17 cases,
14 but we see again there's not much difference in the
15 grant rate. They're both very high. If there was a
16 minor impact, it's 80 percent. If there was not a minor
17 impact, meaning it was more than a minor impact, we have
18 the counterintuitive results of a higher grant rate, 100
19 percent.

20 So, this again, is one of those that you will want
21 to handle carefully if this is a factor in your case,
22 and those of you who have read a number of eBay cases
23 will have or probably already have reached the conclusion
24 that putting on evidence of harm to the defendant is a
25 losing proposition unless say it's Windows or something

1 that ubiquitous. Generally, the courts just repeat back
2 to us, "You shouldn't build your business on an
3 infringing product," and this counterintuitive result is
4 maybe part of that.

5 What about if the defendant comes to court and
6 says I promise I'm not going to infringe anymore? Now,
7 this is different from -- there were some cases where
8 the defendant actually had sold its ability -- the
9 machines that had the ability to make the infringing
10 product. The defendant had notified its customers, "I
11 will not sell this product anymore." This is not that.

12 This is simply the situation where the defendant
13 comes to court and says, Your Honor, I really, really
14 promise I'm not going to do this anymore, so what effect
15 does that have? And it happens a lot. It happened in
16 15 different cases.

17 Well, if the defendant says yes, he's not going
18 to infringe anymore, we have an 80 percent grant rate.
19 If the defendant does not make that, we have the
20 counterintuitive result of a 40 percent grant rate,
21 okay, so this would be the case where the court
22 mentioned, "Well, the defendant has not even offered to
23 stop infringing."

24 The grant rate is lower, so once again,
25 focusing on aspects of the defendant is a tricky

1 proposition because we have a counterintuitive result,
2 even though the grant rate difference is pretty
3 high.

4 What about public health concerns? As we might
5 expect, the grant rate is lower if the court found a
6 public health concern. If there is none and the court
7 specifically said there is no public health concern,
8 it's way up there. It's 90 percent, significant
9 difference, 40 percent difference in grant rate, so that
10 is something you will want to focus on if that's an
11 issue in your case.

12 What about if the court specifically holds that
13 complying with the injunction is easy for the defendant?
14 That makes a big difference if the court specifically
15 points that out, so that is something that if you're in
16 a case, you will want to pay attention to as to how easy
17 or how difficult is it for the defendant to comply with
18 injunction?

19 What you frequently come across is a defendant
20 at trial is trying to minimize the value of the patent
21 and says, "Oh, that's just a trivial thing, we can just
22 design around it like that, it's just nothing, let's not
23 bother with this, damages are minuscule because it makes
24 no difference to us." But then at the injunction phase,
25 all of a sudden it's like the whole company riding on

1 it.

2 So both of the plaintiff and the defendant have
3 that -- the word is not irony -- have that strategic
4 choice to make, similarly about things like price
5 erosion and how easy it is to calculate, okay, but I'll
6 leave that for others to discuss.

7 But that's frequently what you see in this is
8 that the Judge will point to the defendant and say,
9 Well, now you're saying at the injunction stage, but at
10 trial you said the opposite, so you're a liar and I'm
11 going to enjoin you.

12 Okay. So that was a recitation of the cases or
13 the most -- the first part was the most frequently
14 discussed factor, whether the answer was yes or no,
15 okay?

16 Moving here to part 2, what I'm going to focus
17 on is additional factors that had a very large
18 difference between yes and no, even if they weren't
19 discussed quite as often, okay? So because these were
20 discussed in fewer than 25 percent of the cases, you
21 will have to make your own analysis of whether the data
22 is valuable to you or not, but I bring this up simply
23 because again as a litigator, I would want to know what
24 are the difference makers. A couple of these I'm not
25 going to discuss again because I discussed it in the

1 first part.

2 We have here nascent or developing markets, so
3 this is a patentee that maybe has a product. It's a
4 market making product. It created that market where
5 it's brand new and the defendant comes in and infringes
6 at that beginning early stage. Courts pay a lot of
7 attention to that.

8 Now, there's an additional bit of data on the
9 slide. It says "Grant Rate When Yes," nine out of
10 nine, so because it's not as many, the word sample size,
11 if that's the right word, I'll go ahead and then today we'll

1 existed, if there was price erosion, a hundred percent
2 grant rate, four out of four, and if the court held
3 there was no price erosion, zero grant rate, two out of
4 two.

5 So that maybe is even a little more reliable
6 because you have it on both sides, some granted, some
7 denied, a hundred percent difference in grant rate,
8 important factor to the judges, even if it doesn't come
9 up as much as some of the other issues.

10 What about if the patentee specifically refused
11 to license this defendant, okay? We again have a pretty
12 big difference in grant rate. Four out of five
13 patentees specifically refused, I'm not going to license
14 you. In each of those cases, injunction granted. The
15 one case in which the patentee did not refuse or
16 offered to license, the answer was no. So
17 that's another important factor, even though it doesn't
18 come up very much.

19 Five cases: Is that statistically significant
20 or valid? I'm not a statistician, but I present it to
21 you simply because of the marked difference in the
22 court's decision, even if it was only five times.

23 Critical developing time for the patentee. It's
24 similar to the nascent market but it's a little
25 different. This is where the patentee itself is just

1 starting, so a developing market could be big company
2 starts a new market with its product, okay? This
3 developing time for the patentee is where the patentee
4 itself is just starting, just created, small company,
5 typically against a big company.

6 If that was mentioned by the Judge, a hundred
7 percent grant rate. Once again we didn't have any on
8 the other side, but again seven out of seven for a grant
9 rate, if that exists, I think that means it's important

1 I bring it up again only because the difference in grant
2 rate is so small. That might not be something you want
3 to focus too much of your attention on unless again
4 the -- I think it was the *z4 v. Microsoft* case, there was a
5 big difference in that case, but that was an unusual
6 case.

7 What about if the product is the core of the
8 defendant's business? Judge, "I built my entire
9 business around this product." They don't -- it doesn't
10 seem to make much difference, 11 percent difference in
11 the grant rate between those two situations, so you
12 might bring it up, but maybe it will help. Probably
13 not.

14 What about the situation where it's very hard to
15 change customers, so-called incumbent customers or
16 sticky customers? This was discussed in the *TiVo* case
17 and some of the other cases. Well, whether the answer
18 is yes or whether the answer is no, the grant rates are
19 very high for both, so your mileage may vary. Six out
20 of seven it was granted. One out of seven it was not,
21 so it's probably worth bringing up, but the numbers just
22 don't show a big difference as to whether that exists or
23 not.

24 Did the patentee license others? I think we may
25 have discussed this one. It's mentioned a lot, in 21 cases,

1 it doesn't seem to make a lot of difference to the judges,
2 less than 20 percent yes versus no.

3 And I think this is my final slide: What about
4 the defendant's sales? What if you say, "Hey, it's just
5 a minor impact on the defendant's sales." The there's a
6 high grant rate, 80 percent, a little above average, but we
7 have again another counterintuitive conclusion, if the
8 answer is no, it's not a minor impact, meaning it's major
9 impact, you have 100 percent grant rate.

10 So we're at the fringes here maybe of relevance
11 maybe. That only happened in two cases, but there again
12 there's not much of a difference between the two, and
13 that's all I have. Thank you all very much.

14 (Applause.)

15 MR. SPRIGMAN: So I'm Chris Sprigman from the
16 University of Virginia Law School, and I want to thank
17 Suzanne and Erika for inviting me here today to talk
18 about eBay and its early days in the lower courts.

19 Steve had a lot of slides, very helpful, and I'm
20 going to balance things out by having none. I'm just
21 going to try to go through briefly the eBay case itself.
22 I suspect that most of us know all about it, but I just
23 want to make absolutely sure we're all on the same page.

24 And there are probably some people who might
25 access this webcast who are coming to this for the

1 first time or haven't really thought deeply about it. I
2 would like for them to have an *entree* into this as well,
3 and then I want to talk about the cases, the lower court
4 cases implementing the four factor equitable test for
5 injunctions.

6 So let's go first to the *eBay* case. So *eBay* is
7 of course the leading Internet auction site, and
8 *MercExchange* is a non-practicing entity, holding a
9 business method patent on, quote, an electronic market
10 defined to facilitate a sale of goods between private
11 individuals by establishing a central authority to
12 promote trust among participants, unquote.

13 So that sounds a lot like what *eBay* does.
14 *MercExchange* brings a suit after attempting to license a
15 patent to *eBay*. The parties didn't reach an agreement.
16 The district court finds the patent is valid and is
17 infringed but refuses to award an injunction.

18 The Federal Circuit then reverses, saying that
19 the rule for awarding injunctions in patent cases is
20 their virtual automatic availability. It goes up to the

1 traditional four factor test for equitable relief," so
2 under that test, the plaintiff must show by a
3 preponderance of the evidence that first, without an
4 injunction, he or she is likely to suffer irreparable
5 harm; second, that legal remedies such as money damages
6 are inadequate.

7 Now, this factor, the inadequacy of money

1 equity in Section 283 of the Act.

2 So now Justice Thomas takes issue, and I think
3 this is important to realize, with both the district
4 courts and the Federal Circuits's arguments on
5 injunctive relief. He criticizes the district court,
6 and this is an important point for those who think that
7 eBay is some kind of revolution, which I don't think it
8 is, as I'll try to make clear.

9 He criticizes the district court for thinking
10 that a plaintiff's willingness to license, for example,
11 or its status as a non-practicing entity rules out
12 injunctive relief. The rules, say Justice Thomas, are
13 not categorical in that way. They're equitable and not
14 categorical.

15 The Court of Appeals, on the other hand Justice
16 Thomas wrote, erred by articulating a categorical rule in
17 the other direction, that injunctions are virtually
18 available on an automatic basis. Here,
19 Justice Thomas held no special rule unique to patent
20 disputes in favor of injunctive relief. So that's the
21 very simple, very straightforward opinion from the Court
22 by Justice Thomas.

23 Now, there are two concurrences: First the
24 Roberts' concurrence, which is joined by Justices Scalia
25 and Ginsburg, and Justice Roberts basically says, "Look,

1 it's appropriate for courts to exercise their discretion
2 according to this four factor equitable inquiry, right,
3 so we agree, we're concurring. That said, we are here
4 protecting a right to exclude. That's what patents are
5 about."

6 Most patent cases in the past have granted an
7 injunction. The right to exclude bears heavily in favor
8 of the granting of injunctions, and this history
9 suggests, and the nature of the right as well, that
10 courts in the future, when they go through the four
11 factors, should in most cases grant injunctions.

12 So the other concurrence by Justice Kennedy,
13 which is joined by Justices Stevens, Souter and Breyer,
14 very different, right? So Justice Kennedy writes: "The
15 right to exclude is not the equivalent to the right to
16 an injunction."

17 That's what the four factor test tells us. The
18 earlier cases are instructive, right? The history where
19 injunctions are granted are instructive, but in some
20 ways he says circumstances have changed, so he
21 identifies two ways that circumstances have changed.
22 First he says there's this industry that's grown of
23 these non-practicing entities. He doesn't use the term
24 patent trolls, but there's the kind of whiff of this
25 around the concurrence.

1 Kennedy says that these entities often use the
2 threat of an injunction to extract what he calls, quote,
3 exorbitant fees, unquote, especially, he says, where the
4 patent covers a small component of a much bigger
5 product.

6 There's also a second change that Kennedy
7 identifies, and this is he says the problem of patent
8 quality, especially in business method patents, so here
9 I'll quote from him. "In addition, injunctive relief,"
10 Justice Kennedy writes "may have difference consequences
11 for the burgeoning number of patents over business
12 methods -- " that's the kind of patent involved in the
13 eBay case, "-- which were not of much economical or
14 legal significance in earlier times. The potential
15 vagueness and suspect validity of some of these patents
16 may affect the calculus under the four factor test."

17 So there's the opinion in a nutshell, and
18 what to think about this? I know there's a mix of
19 views out there, and some of the early commentary on the
20 eBay case was very panicky so I won't go into that. I
21 think, first of all, it's clear that the Court is
22 engaging in explicit policy-making here, and that's
23 fine.

24 To me the patent law gives courts control over
25 the injunction standards, and the Supreme Court here is

1 doing what common law courts have done for a long time.
2 It's adapting these flexible standards to what it
3 appraises as the central problems of the patent law or
4 any other body of law at the time, okay.

5 The *eBay* decision is not idiosyncratic, and I
6 think we probably would all agree on this. It's of a
7 piece of the Court's recent patent cases. I refer of
8 course to, for example, *KSR*, wherein the Court widened
9 the circumstances in which patents will be invalidated
10 as obvious, or *Microsoft v. AT&T*, in which the Court
11 limited the patent law's extraterritorial reach, or
12 *MedImmune* in which the Court made it easier for
13 plaintiffs to bring declaratory judgment suits alleging
14 patent invalidity, or *Quanta*, in which the Court made
15 clear that the patent exhaustion doctrine applies to
16 process claims and even does so in instances where a
17 product does not fully practice the claimed invention.

18 So the Court's taking little nibbles around the
19 edge of the patent system, not just in *eBay*. It's been
20 taking a bunch of nibbles lately, and it's doing so, it
21 seems to me, based on the kind of -- not so much the
22 words of these opinions but the music because it gets
23 the sense that something in the patent law has changed
24 and that patents are increasingly open to strategic use
25 by patent holders.

1 So do we object to this? Well, some people
2 object to this as judicial activism, and I'm not in
3 favor of judicial activism, but I think viewing this as
4 judicial activism is far too ideological. This is just
5 the essence of how the common law works. If Congress
6 does not like what the Court has done in terms of its
7 subtle shift on injunctions or the obviousness standard
8 or anything else, it can displace what the Court has
9 done with ordinary legislation.

10 Now, this hasn't happened, and I'm not holding
11 my breath for it to happen, and on the whole, I think
12 that if the Court's decisions here are left alone for
13 awhile, that's a good thing. Why? I view patents the
14 way I view IP law generally. I view patents as a social
15 welfare tool. I do not view them as proceeding mostly
16 from fairness, entitlements or natural law entitlements
17 as some others do.

18 So under my view of the patent law, which I
19 understand is contestable, but if we want to talk about
20 this later, we can certainly do it, automatic
21 availability of injunctions would certainly be justified
22 if they optimized patent incentives. I think there's
23 very good reason to believe that they do not optimize
24 patent incentives, injunctions if available
25 automatically.

1 So one reason I think this is that unlike other
2 forms of property, both real and personal, the
3 boundaries of patent are very indistinct; that is, the
4 meaning of patent claims is rarely self-evident but
5 instead require interpretation, interpretation that is
6 costly and subject often to error.

7 Given the cost of informing one's self about the
8 scope of other's patents rights, the risk of error that
9 attends even the most good faith attempt to do so and
10 the significant number of patents that are held in
11 litigation to be entirely invalid, it is not surprising
12 to me at least that many have doubted that giving power
13 indiscriminately to patent owners to hold up large
14 investments made in good faiths by others is not an
15 efficient way to structure remedies in the patent
16 system. So I on the whole welcome the Supreme Court's
17 decisions in *eBay*.

18 Now, I want to spend the rest of my time looking
19 at how the decision is worked out in the lower courts
20 thus far. At this point I've seen 57 patent cases. I
21 think Steve and I have seen most of the same, although
22 maybe our database is just a little bit different.

23 I'm not going do go through these in any
24 details. If I did, we would be here for a week. I'm
25 just going to give you a few highlights really of just a

1 couple headlines, which come together I think into a
2 coherent message, which is so far, the lower courts are
3 doing a fairly credible job, that these injunction
4 standards are developing. It's a work in progress, that
5 we should pay attention closely but we shouldn't yet
6 pull any alarm bells. *eBay* did not work any
7 fundamental change in patent remedies. It shifted the
8 availability of injunctions on the margins and to my

1 district court had issued based on evidence of lost
2 sales due to the entry of defendant's infringing
3 generic.

4 The Federal Circuit did not doubt that Abbott's

1 Generally this reluctance is based on two
2 distinct notions: First, that these types of harm may
3 be difficult to quantify but their calculation is not
4 impossible in many cases, and if the case moves forward
5 to a damages calculation, both parties will offer
6 evidence that a court can assess.

7 Second, finding irreparable harm in every
8 instance when these conditions were present would turn
9 the injunction remedy back into more of a standard form
10 remedy than the *eBay* court had envisioned.

11 So okay. I'll say, and maybe go out on a limb,
12 that I'm generally okay with these cases. Just because
13 money damages may be difficult to calculate, I think the
14 courts are right, does not mean that they are inherently
15 incalculable. For example, we calculate, as a matter of
16 course, pain and suffering damages in torts cases. It's
17 very difficult to do so, but we do it, and over, time
18 we've developed methodologies for attempting to make
19 these awards more predictable.

20 There are a couple additional points that make
21 me comfortable. First, as a matter of reality, I
22 suspect that in many cases the parties will settle in
23 the shadow of the court's pending determination of
24 damages, and courts can take steps to structure their
25 damages or remedies phases in ways that encourage

1 settlement and reduce the number of instances in which a
2 court must set a price for infringement.

3 It's true I suppose that settlements will tend
4 to be less favorable to plaintiffs on the margin in
5 cases where injunctions are not available, but I see no
6 reason to object to that on principle. We're in a
7 shocking state of ignorance on the most basic issue in
8 patent, that is whether the patent system under
9 incentivizes innovation, over incentivizes innovation
10 or gets it just right.

11 We're in a shocking state of ignorance with
12 regard to that question on a variety of different types
13 of innovation and have long been. When you consider how
14 little we know on this point, we have another reason to
15 welcome the Supreme Court's opinion in *eBay*. This
16 sudden change in the rules governing injunctions gives
17 us an opportunity to learn more about how patent
18 remedies structure incentives.

19 Parties are now going to have to come and offer
20 evidence about injunctions and the advisability of
21 injunctions. That produces data, data of the kind that
22 Steve is beginning to work with and that others will
23 certainly work with in the future. In the years ahead,
24 we should look for data on the effect of the post-*eBay*
25 rule, especially on investment in and litigation filed

1 by non-practicing entities. The Court has kind of
2 handed us here a natural experiment, and we should make
3 use of it.

4 Now, these cases involving direct competition,
5 so I talked about the grant rate which is very high. I
6 talked about some exceptions and how they don't bother
7 me too much. There's a couple of -- one more really
8 interesting thing to say about the direct competition
9 cases, and that's the small number of cases in which
10 it's not clear whether the parties are in direct
11 competition.

12 So how do we define when the parties are in
13 direct competition? So a case like this is *Amgen v.*
14 *Hoffman-LaRoche*. In that case there was no present
15 direct competition in the product markets at issue, but
16 there was evidence that the plaintiff was attempting to
17 establish what the court characterized as a beachhead in
18 the defendant's product sector, so there was evidence of
19 likely future competition.

20 The court granted an injunction here, and this
21 seems right to me, but there is another aspect of the
22 *Amgen* decision that troubles me. As part of the court's
23 finding of irreparable harm, it noted that allowing the
24 defendant to continue producing the infringing product

1 it a viable competitor in markets for future, presumably
2 non-infringing drugs.

3 That is not a legitimate reason in my view to
4 find irreparable harm; that is, based on potential
5 future competition in markets, the plaintiff has no
6 expectation and will be free from competition, so I
7 haven't been seen that mistake repeated, but that stuck
8 out to me in the *Amgen* decision as a mistake that
9 antitrust people should be aware of and hostile to.

10 So the second case involving the kind of
11 boundaries of competition is *Broadcom v. Qualcomm*,
12 which involved infringement of patents covering base
13 band chip sets for cellular telephones.

14 The defendant, Qualcomm, argued that an

1 not so much in the market but for the market, and the
2 injunction issued.

3 The third, which I think is a really interesting
4 case, and I'll just mention it briefly, is *Callaway Golf*
5 *v. Acushnet*, not because I'm particularly interested

1 injunctions issue in about half the cases, and when the
2 plaintiff is a non-practicing entity the injunction is
3 even less likely to issue.

4 So, most of these cases are not particularly
5 interesting, but there are some exceptions. The
6 exception I want to talk about in particular are a
7 number of cases not involving competitors where courts
8 have identified a plaintiff's apparent willingness to
9 license as a reason to find that money damages were
10 adequate.

11 So Steve mentioned this, and he doesn't think it
12 drives the result in the cases, but it's still
13 theoretically interesting, right? So, why is it
14 theoretically interesting? On the one hand, using
15 evidence about licensing or willingness to license may,
16 on the margin, deter parties from settling, and that's
17 generally not desirable.

18 On the other, offers to settle for money
19 suggests that the plaintiff can be made whole with
20 money, almost definitional, and that's the point of the
21 irreparable harm and adequacy of money damages prongs of
22 the equitable test, so this is very relevant
23 information, right, even potentially quite probative,
24 that creates this kind of risk of deterring settlement,
25 which as a matter of policy, we generally want people to

1 do.

2 So, what do we do with this? Well, I suggest we
3 ignore it. I'm generally okay with courts thinking
4 about offers to settle for money or licensing offers in
5 their analysis of the four factor test, and why is that?

6 Well, if you think about it for a moment,
7 there's a subtle anti-settlement bias that's built
8 into the four factor test across the board, right, much
9 more broadly than simply in the patent context. If
10 evidence that money suffices is relevant generally,
11 which it surely is to irreparable harm, then the fourally,

1 consequences, and I think we're already starting to see
2 one, and the first one what I've seen involves the
3 International Trade Commission.

4 So after *eBay*, and still early, so we need more
5 time to assess this -- but after *eBay* it appears to me
6 at least that more patent cases are headed to the ITC,
7 which is not bound by the *eBay* standards and which is
8 more willing to give injunctions as a matter of course.

9 Now, I would refer you to a very interesting
10 paper by Colleen Chien called "Patently Protectionist?
11 An Empirical Analysis of Patent Cases at the
12 International Trade Commission" and it just appeared in
13 a William & Mary Law Review, and I think it's worth a
14 look.

15 The ITC grants injunctions, Chien finds, in 100
16 percent of cases to the prevailing plaintiff, and the
17 speed and the huge expense of the 337 process at the ITC
18 really advantages large entities, so what's the result
19 of this?

20 In 65 percent of the cases filed at the ITC at
21 the moment, the plaintiff also filed a district court
22 action. This gives the plaintiff two bites at the
23 injunction apple, and in a sense represents an
24 attempt -- again an early attempt, we will see where
25 this goes, to circumvent the Supreme Court's rule

1 restoring traditional equitable standards in patent
2 cases.

3 So I think we should start looking at this more
4 closely, and at least begin to consider whether you want
5 to stop this kind of two bite at the apple strategy.
6 I'm going to stop there. I know we're going to have
7 some great discussion. Thanks very much.

8 (Applause.)

9 MS. MICHEL: Thank you, Steve and Chris, for two
10 of the best presentations I've seen on eBay in the past
11 couple of years. Let's take a ten minute break, and
12 then we'll convene the panel at the table. Thank you.

13 (Whereupon, a brief recess was taken.)

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1 PANEL 1: CHANGES IN INJUNCTION LAW

2 MODERATORS:

3 SUZANNE MICHEL, FTC

4 ERIKA MEYERS, FTC

5 PANELISTS:

6 GEORGE E. BADENOCH, Partner, Kenyon & Kenyon, LLP

7 JOHN M. GOLDEN, Assistant Professor, University of Texas
8 School of Law

9 ANNE LAYNE-FARRAR, Director, LECG, LLP

10 CHRISTINE MEYER, Vice President, NERA Economic
11 Consulting

12 HENRY SMITH, Professor, Harvard Law School

13 HENRY SU, Partner, Howrey LLP

14

15 MS. MEYERS: So, now we're going to get started
16 with the roundtable portion of our discussion of
17 preliminary injunction after eBay. We have a fantastic
18 group of panelists here today who I will introduce in
19 alphabetical order, and I'm going to keep the
20 introductions short.

21 George Badenoch is chair of Kenyon & Kenyon's
22 Electrical and Mechanical Practice Group. He has over
23 30 years experience in litigation and adversarial matters
24 concerning all aspects of intellectual property,
25 including patents, trade secrets, trademarks and

1 copyrights.

2 John Golden is an assistant professor at the
3 University of Texas School of Law where he teaches
4 patent and administrative law. He has also taught at
5 Harvard. John was a Supreme Court clerk for Justice
6 Breyer and also clerked for the Honorable Michael Boudin
7 in the First Circuit.

8 Anne Layne-Farrar is a Director with LECG.
9 Dr. Farrar specializes in antitrust matters where the
10 core issues are at the intersection of intellectual
11 property, economics and competition policy. She advise
12 clients on competition regulation and intellectual
13 property issues across a range of industries with a
14 focus on high tech. She earned her Ph.D. from the
15 University of Chicago.

16 Christine Meyer is a Vice President at NERA.
17 She conducts economic research and analysis in the areas
18 of the intellectual property, antitrust economics,
19 commercial damages, business valuation and labor
20 economics. In the areas of intellectual property, Dr.
21 Meyer has written about and analyzed issues of
22 preliminary and permanent injunctions in conjunction
23 with patent cases, and she earned her Ph.D. from MIT.

24 Henry Smith is a Professor of Law at Harvard Law
25 School where he teaches in the area of property,

1 intellectual property, natural resources, remedies and
2 taxation. He formerly taught at Yale Law School. He is
3 a prolific author in the areas of law and economics,
4 property and intellectual property with emphasis on how
5 property related institutions lower information costs
6 and constrain strategic behavior.

7 Henry Su is a partner at Howrey. He specializes
8 in trial and appellate litigation, alternative dispute
9 resolution and strategic counseling of claims and
10 controversies that involve intellectual property,
11 antitrust, competition and trade regulation issues.

12 So with the introductions started, I will turn
13 it over to Suzanne to ask the first question.

14 MS. MICHEL: We will follow a format, as we did
15 yesterday, where we will be throwing out questions, and
16 any panelist, if you would like to respond, if you would
17 put up your table tents, and we will go around the table
18 and call on everyone. I'll also caution the panelists
19 to speak into the microphone so that the webcast picks
20 it up.

21 We're going to start with basic principles here
22 of property law and remedies law and ask Henry Smith,
23 we're very lucky to have a property law scholar with us
24 today, about what kind of property law concepts can
25 inform our thinking about patent law remedies, and

1 injunctions in particular.

2 PROFESSOR SMITH: Thank you very much. Thanks
3 for the opportunity to be here. So we heard already
4 about the equitable mode of decision-making here, and I
5 want to talk just a minute or two about how it relates
6 to the venerable question of how intellectual property
7 and property are related, if at all.

8 But I want to start with just a word of caution
9 that we will talk a lot about economic analysis, and it
10 seems to me that there are two kinds of economic
11 analysis, at least, and that, in a sense, some of the ways
12 of talking about eBay and its aftermath represent a
13 choice between these two kinds of modes of economic
14 analysis.

15 One is that we can pick out individual rules
16 or decisions or standards and so forth and ask whether
17 they meet a cost-benefit test, whether they're
18 efficiency promoting or not. Then there's the
19 question of whether the law in a given area has an
20 overall architecture that promotes efficiency or other
21 goals or not, and if there's a cost-benefit analysis to
22 be made, it's at the level an architecture. The problem
23 is that the various parts here work together or not, and
24 it's the second question of architecture that I want to
25 just say a few things about.

1 So, in the cases, sometimes it's called right to
2 exclude and in property, this is implemented in the law
3 of trespass. It's very bright line. It's very tough.
4 It does not solve all problems, but it gets us pretty
5 far, and it's a starting point because it's very cheap
6 for people to start with that starting point.

7 Of course, this is much easier in the case of
8 chattels and land than it is in intellectual property
9 because the boundaries are easier to draw, and so we're
10 going to have to do something about that, and what do we
11 do?

12 Well, in property and in intellectual property
13 at some point we have to go to fine tuning controls,
14 which I've called governance, and so we have the law of
15 nuisance and we have custom and so forth which tend to
16 be more detailed and sometimes more *ex post* and fuzzy.

17 The question is when you want to go from one
18 decision making mode to the other and why, but when we
19 move from one decision making mode to another, it's not
20 necessarily the case that the first decision-making
21 mode, the exclusion decision-making mode has no purpose
22 at all. It's a basic architecture that might be doing
23 something.

24 What might it be doing? Well, for one thing the
25 exclusion set of property rights makes certain questions

1 easier to deal with. You don't have to know everything
2 in order to know where you stand. If you're going
3 through a parking lot, you know you don't have a right
4 to take the cars. In intellectual property, some people
5 have argued that these basic baselines of exclusion,
6 independent invention is not a defense and so forth,
7 makes the baseline for organizing joint ventures and so
8 forth, employee inventions easier to set up.

9 Those are empirical questions, but the question
10 that I would like to raise is the basic architecture:
11 Is it doing something? One way to get a handle on that
12 is to think about how else we might do it.

13 Well, how else we might do it does again trace
14 back to equity, which would be to use the law of
15 tracing. We could say, Okay, really what we're talking
16 about are all the rival inputs that people might put in,
17 the lab space, the time, all the other inputs. Well,
18 let's just make property rights in those and trace all
19 those out to the ultimate consumer and so forth.

20 That in its pure form would be impossible to do.
21 On the other hand, we have other law from property that
22 is reminiscent of issues of intellectual property where
23 people contribute inputs, and we go for very lumpy
24 solutions, so if I mistakenly cut down somebody's tree
25 and make a sculpture out of it, as long as I'm in good

1 faith, I can keep the sculpture and pay for the wood,
2 but the idea is that we don't make the people co-owners.
3 We don't go for something more fine grained than that.

4 So, that brings us to the question of
5 injunctions, and the correlation in property and in many
6 areas of intellectual property is to the extent that,
7 and that's the question we would have to answer, we want
8 to go with this basic exclusion architecture which we
9 then refine, we tend to heavily rely on injunctions.

10 Why? Because the exclusion regime is on-off.
11 Have you violated or not? And much clearer in the case
12 of land, somewhat more clearer than the case of a trial in
13 intellectual property, but even within intellectual
14 property, there are differences, so copyright is a much
15 fuzzier regime than patent. Patent is fuzzier than
16 regular property, but the idea is that we have to fine
17 tune at some point.

18 Well, how do we do that? Well, the Supreme
19 Court has said that we use these traditional four
20 factors, but there's a basic problem, and the problem is
21 that equity is not a subject in law school. Remedy is
22 hardly a subject in law school. It's basically a plant
23 that we haven't watered for decades or more, and so
24 people know that there are these four factors, but
25 that's about it.

1 They study it for the bar exam, but that's about
2 all that people coming to it initially have as
3 background in equity, and that matters, because then
4 people don't really have a feel for what these four
5 factors mean, and then when we decide, what are we
6 doing? Well, we might be doing cost-benefit analysis.
7 We might be doing antitrust style analysis, and you can
8 filter all of those kinds of analysis through something
9 that sounds like the four factor test.

10 As we saw in the original presentations, these
11 tests may or may not really be doing any work. That's
12 always been the question in equity, but it's not even
13 clear that people are following the sort of rules of
14 thumb and intuitions that came along with these tests
15 when they were originally devised, and that seems to me
16 somewhat of a problem.

17 Why? Because we really need to make a
18 substantive decision whether we want to make patent law

1 them, refine them, make them work better.

2 So, for instance, the question of good faith
3 versus bad faith, if we take an analogy to building
4 encroachments, somebody with bad faith, who builds over
5 the line is going to be hit with an injunction, but
6 these days, good faith improvers generally tend not to
7 be hit with injunctions.

8 This is a very parallel problem to the
9 infringement problem in patent law because after all,
10 the driver towards damages in encroachment law is that
11 somebody has, in good faith, relied on a mistake and has
12 invested greatly, and the problem is going to be
13 extremely expensive to fix, and the other person can
14 hold out.

15 This suggests that we go back to the equitable
16 factors, and we will discover that in areas like
17 property, the test is not balance in some kind of
18 equipoise sense, but usually some kind
19 of disproportionate hardship, coupled with good faith
20 and so forth, but we have to refine the notion of good
21 faith of what we mean in the patent context.

22 We may not want to carry over willfulness from
23 the punitive damages inquiry into this, but we have to
24 decide what is fair notice and what size safety valve we
25 want on the basis of that, and the traditional equitable

1 tests give us those tools, but they give us the proper
2 tools, if we keep in mind, number 1, what we're doing,
3 why intellectual property is like property and why it's
4 not, and number 2, what rules of thumb came along with
5 equity that were sort of tried and true tools to solve
6 these kinds of problems rather than taking the four
7 factor test as an invitation either to try to disguise
8 an automatic presumption in these terms or to do free
9 floating cost benefit analysis.

10 And I would end on the note that the Supreme
11 Court has not spoken in a very unified voice about the
12 nature of equity in the first place. You take the cases
13 like *Grupo Mexicano*, it's not at all clear that the
14 Supreme Court is of one mind about what equity is
15 supposed to do, and we've got to resolve this
16 polarization between people that want to get rid of
17 equity all together on the one hand and people who want
18 to make this into a free floating, policy oriented
19 analysis that's couched in four factor terms on the
20 other.

21 Historically there has been a way between those
22 two poles, and it seems to be completely relevant to
23 solving this number with patent remedies.

1 today, which is why we started with him, and that's
2 perfect.

1 principles that can rise above this debate, at least
2 inform how we approach thinking about the problems and
3 the questions we can ask. Some of them are going to
4 resonate quite strongly with what both Chris and Henry
5 have already said.

6 So I'll briefly go through my list of five and
7 sketch a little how they can apply to some current
8 issues, just so you have an idea at least what I think
9 they mean.

10 So the first of these is what I call the
11 principle of non-absoluteness, which is that given the
12 diversity of technology markets and given the fact that
13 technology markets can change over time, although we may
14 want to choose strong default rules for reasons of
15 administerability, as Henry has suggested, there's also
16 good reason to think that we should allow for a certain
17 amount of flexibility, at least some safety valves
18 because of the many different circumstances and
19 possibilities of different circumstances that will
20 exist, there's very likely to be situations where the
21 default rules will lead to odd and undesirable results.

22 In this regard, the *eBay* case, although I've
23 often been critical of the Court in that case, and I did
24 help represent MercExchange before the Supreme Court,
25 which I will add, which I almost always do when I

1 discuss that case specifically -- the eBay case might
2 be viewed favorably in this regard. It's at least
3 making clear that injunctions should not be automatic.

4 And just as in old cases where they say, "Well,
5 we're not going to enjoin the use of a public road or a
6 bridge, even though it's found to be infringing, we'll
7 leave open the possibility that there should be
8 exceptions to rigid enforcement of a right to exclude."

9 The second principle I have is what I call a
10 principle of anti-discrimination, not a principle of
11 non-discrimination because almost any rules you adopt are
12 going to discriminate to some degree. Our current
13 preliminary injunction regime has, for quite a long
14 time, tended to discriminate against what we call non
15 practicing patent holders, very difficult for them to get
16 patent infringement, even in days past when they might
17 have been able to presume they would get a permanent
18 injunction.

19 But because again it's difficult to determine
20 what the best business models are, what the best market
21 structures are for promoting technology and because
22 those business models and market structures may change
23 over time and differ between technologies, I think there
24 should be some skepticism of rules that really tend to
25 discriminate systematically against particular business

1 remedies.

2 The principle of devolution suggests that,
3 we should try to leave a fair amount of responsibility
4 and capacity to private parties who are often closer to
5 the facts, closer to the changing facts, to develop
6 institutions, practices and understandings that will
7 help lead to rights and the ability to exploit rights
8 being in the hands that can most efficiently exploit
9 them.

10 And we have seen over the course of history that
11 private parties have shown some capacity through
12 development, practices of cross licensing or patent
13 pools, *et cetera*, to overcome problems that patent
14 rights might create.

15 And I think this relates a little to what Henry
16 was suggesting, that if we move very strongly away from
17 a regime that uses injunctions towards one that more
18 presumptively is going to have courts awarding damages
19 and essentially engaging in price setting to the extent
20 they award ongoing royalties or compulsory licensing, we
21 may be taking a lot of this responsibility out of
22 private hands and putting it in the hands of government
23 parties that might not be so confident to set how the
24 market works.

25 Then the fourth principle which perhaps most

1 strongly resonates with what Henry was saying is the
 2 principle of administerability, the fact that we can't
 3 have a perfectly tailored system, and we're going to
 4 have to make some choices about what we think government
 5 actors, such as district courts, can do in terms of
 6 bringing about optimal economic results, and what will
 7 make the system administrable from the standpoint of
 8 private parties who have to try to predict what the law
 9 is going to do and reach private arrangements
 10 accordingly.

11 Then my final principle is -- which I think
 12 Chris Sprigman already alluded to is the principle of
 13 learning that when you set rules, you can set them in a
 14 way that will allow the government and the public to
 15 gain more information or less, so you may want to

2 16 argue in the case about whether people have

22 17 a right to more information, and we're getting in a bit of the

2 18 in more information, but the way that you can't work out in the

24 19 information is about how to set the rules, and what the

26 effects of the law are. The 2000 law is the 2000 law.

1 could do are.

2 So then you might think, Well, if, for example,
3 we have a concern of balance of hardships, who should
4 start out bearing that burden? This goes to part of the
5 question of whether we want presumptions of whether the
6 balance of hardships favors the patent holder or the
7 infringer if you think the infringer is likely to have
8 more of the relevant knowledge and be able to develop
9 more of the relevant knowledge and present more of the
10 relevant knowledge through the course of -- to the
11 courts about what the balance of hardships is, then
12 perhaps you want to force them to come forth with that
13 and have a presumption that the balance of hardships
14 favors the rights holder until some evidence is
15 presented on the other side.

16 In any event, these are principles which either
17 side can use to argue but I think can help set some
18 guidelines and starting points for debate that can
19 perhaps raise us above the usual patents are very
20 important for the bio-pharmaceutical industry and perhaps
21 more of a drag for the information and communications
22 technology industry.

23 I think these can at least allow us, even if we
24 develop a proposal that's going to favor one industry
25 sector over another, to look to how to tailor it a

1 little bit to tend towards some general goals of
2 optimality.

3 MS. MICHEL: Thank you. So we've heard a lot

1 good thing because if you grant one and it's too onerous
2 for the implementer, he can stop infringing and
3 renegotiate, work around, switching costs, *et cetera*,
4 but once you have the ability to exploit those switching
5 costs, I think it changes the calculation to a case
6 where the four factors makes sense to me such that you
7 want to have a balance between granting injunctions when
8 it's going to further the broader goals of innovation in
9 the economy, but prevent any kind of strategic or misuse
10 of the patent.

11 I don't think that breaks out along the lines of

1 whether you're infringing. A lot of
2 innovation is sequential, so you're working on your
3 machine, and your machine might implicate somebody
4 else's patent and it might not, and you really will only
5 know *ex post* litigation.

6 So if we have too ready availability of
7 injunctions, we do raise the cost of sequential
8 innovation, so we have to balance that against the
9 incentives for the first inventor.

10 Now, it's, I think, unfortunate, but true, that
11 We have very crude empirical tools to balance that in any
12 particular case, and we have even worse empirical tools
13 to balance that systemwide, in part because patent law is
14 a one size fits all system, but the innovation
15 characteristics of different industries are so
16 different.

17 So the single most important thing to me in all
18 of this, and John mentioned it, is: How can we
19 structure the patent system in ways that teaches us how
20 to do better? And I think switching to an *eBay* rule
21 where injunctions are often granted so we haven't
22 switched to a liability rule, but there's some showing
23 that's required, and occasionally it won't be granted so

1 about who's the best party to get the information from,

1 innovation, which is taking ideas and making them into
2 products, because without that -
3 consumers don't benefit from the innovation that
4 society has the ideas but no one benefits.

5 So, increasing the number of injunctions both
6 because they're now products that are not in the market,
7 those are direct effects but I think more to the
8 indirect effects, a firm, when thinking about
9 commercializing anything, has to take the various risks
10 into account, and the more the risks of having to take a
11 product off the market at some point in time down the
12 road after which many R&D dollars have been sunk, the
13 more that that risk increases.

14 It's going to have at the margins an effect of
15 decreasing sort of the incentive to commercialize
16 products that may be in those kinds of spaces where
17 patent -- where there are a lot of patents.

18 So I think those are the two pieces of
19 innovation that we have to think about, and I think it's
20 an empirical question as to whether or not more
21 injunctions at the end of the day or fewer injunctions
22 at the end of the day would, on net, increase the number
23 of new innovative products that consumers see.

24 That's what we're really concerned about.

25 MS. MICHEL: Okay. Our two economists, Anne and

1 Christine, have both mentioned sunk costs and getting at
2 the concept of hold-up. Let's define hold-up and talk
3 about hold-up, and what do you think about hold-up and
4 is hold-up the one instance where -- that should drive
5 the denial of an injunction? Are there others? That
6 seems to be our main one.

7 Anne, I know you've done a lot of thinking about
8 when does hold-up occur.

9 MS. LAYNE-FARRAR: I think the classical example
10 is when you have a manufacturing firm, that in order to
11 implement or bring a new product to market, has to
12 buy some piece of equipment, build a new plant, so when
13 is the cost of that decision -- and it's deciding, do I
14 make this investment or not, those costs haven't been
15 made, so if there's a licensing negotiation at that
16 point and the licensee -- the patentee rather asks for
17 too much, the manufacturer could just say, Sorry, it's
18 too expensive, I 000000000 0.0000 0.0000 ct's

1 paper from '07, '06, I can't remember which year, and
2 what we do is -- that's one of the only really formal
3 models in the literature that says, Here's what patent
4 hold-up is and here's what the consequences are, some of
5 these four factors are explicit in their analysis.

6 And what my co-authors and I show are that these
7 four factors are critical to their results, and if you
8 weaken any one of them, the conclusions that Lemley and
9 Shapiro draw that patent holders are typically over
10 compensated actually no longer hold.

11 So in particular, the four factors are that the
12 manufacturer must have infringed inadvertently. That's
13 a basic assumption in many of the hold-up discussions is
14 that the manufacturer is innocent, that it didn't know
15 about the patent, maybe the patent was a submarine
16 patent or the holder pops up *ex post*, ah-ha, nobody knew
17 about this. That's not always the case.

18 Detection of infringement is not perfect, and I
19 think Chris mentioned this earlier. You may not know,
20 especially with the complex high tech products that
21 involve hundreds of components, maybe read on hundreds
22 or even thousands of patents -- you may not know what's
23 infringing or what's not from both sides. Patent holders
24 may not know who is infringing and implementers may not
25 know what they're infringing.

1 it, who's going to implement it because I can only
2 extract the million dollars if I can get the
3 license.

4 So the probability that I can find out who needs
5 it, who's using it, who's infringing it, affects my
6 payoff, and the lower the probability of that, the lower
7 my expected payoff is, what I'm expecting when I'm

1 MS. MICHEL: Yes.

2 MR. SPRIGMAN: To this concept of hold-ups?
3 There's a basic asymmetry in the patent system which is
4 the following: So claim terms are often very opaque,
5 right?

6 MS. MICHEL: Yes.

7 MR. SPRIGMAN: And so a patentee knows, if
8 the claim terms are opaque, and also has, in a system
9 pre-eBay, ready availability of injunctions, so in any
10 instance where there's significant sunk costs, the
11 patentee has the incentive to basically wait until costs
12 are sunk and then go and say, You know, you may not have
13 thought these claim terms apply to you, but they do,
14 right? And by the way, I now have this lever of
15 injunctions, and you have sunk costs.

16 So what this tends to do -- think of it from the
17 perspective of kind of the integrity of the patent
18 system. The patent system is aspiring to establish the
19 meets and bounds of claimed inventions, right, fairly
20 precisely?

21 So a lot of work is done in the patent office to
22 do that, and it's imperfect, but this asymmetry in kind
23 of pre-litigation behavior means that the claim terms as
24 they actually exist out on the street are often
25 effectively quite a bit broader than they exist in the

1 patent office because of the threat of the injunction
2 against parties that have sunk cost.

3 Parties make deals. They accept at least for
4 the purpose of striking a deal interpretations of the
5 claim terms that probably wouldn't have passed muster
6 before the PTO and may not pass muster before a court,
7 but because they are problematic and the incentives are
8 asymmetric in this way, right, the patent, the scope of
9 the patent expands, so that's an effect of injunctions
10 as well.

11 MS. MICHEL: This is perfect because you're
12 setting up our March 19 panel on the notice function of
13 patents and how everything is connected and why we're
14 doing both. Thank you.

15 Anne's point about infringement must be
16 inadvertent is interesting, but is it difficult in a
17 world in which claim scope is uncertain and how
18 should -- how should we -- how should our thinking about
19 injunctions and hold-up take into account the fact that,
20 as Chris just described, patents that the defendant
21 might not have thought applied and then someone argues
22 for a broader claim interpretation?

23 MR. SPRIGMAN: Can I just ask Anne for a
24 clarification? As I understand Anne to say, and maybe
25 I'm reading into this, there are really two things that

1 are closely related but that are nonetheless different
2 that could be classified as inadvertence, and one is you
3 just don't know about the patent, right?

4 MS. LAYNE-FARRAR: That can either be innocent
5 or not innocent.

6 MR. SPRIGMAN: Right, but you cannot look,
7 right.

8 MS. LAYNE-FARRAR: Right.

9 MR. SPRIGMAN: And I don't think we want a
10 system that encourages people not to look, right?

11 MS. LAYNE-FARRAR: Right.

12 MR. SPRIGMAN: So we have to worry about that,
13 but the other form of inadvertence is: Well, I found
14 the patent and I actually even got an opinion letter.
15 The opinion letter was by learned counsel and they did a
16 good job and they laid out an argument for me that the
17 way my transistor is built doesn't infringe on this
18 particular patent on a certain architecture, so I went
19 ahead and did it, I relied on counsel.

20 That's also in a sense -- infringement actually
21 does happen. It's inadvertent, right?

22 MS. LAYNE-FARRAR: Yes, yes. I would say that
23 manufacturer was acting in good faith. He looked. He
24 thought it was non-infringing and maybe somebody else
25 disagrees, but then that's a debate to have at that

1 point.

2 MS. MICHEL: George, did you have a comment?

3 Let's go to you because you lived this.

4 MR. BADENOCH: Yeah, I did. There's two
5 different factors I think in inadvertence. One, I agree
6 completely with Henry [Smith] when he said the difference
7 between real property and intangible property is that
8 the boundaries are unclear. That's an understatement.
9 That's what we litigate in every case, and it goes
10 without saying that making it a judge decision to
11 interpret the claims instead of a jury decision did not
12 solve that problem, and having the Federal Circuit have
13 a single appellate court *de novo* review every claim
14 instruction certainly hasn't solved it either.

15 So, yes, the boundaries are completely
16 uncertain, but another entirely different factor is how
17 long it often takes for claims to actually issue and the
18 process in which it is considered legal and normal and
19 proper to have a chain of applications and in a sense
20 copy something that's out in the marketplace, and
21 instead of having an adversarial infringement issue over
22 original claims that you submitted before you saw the
23 competitor's product, you in effect copy the
24 competitor's product later.

25 You go into the patent office and you have an ex

1 *parte* issue with the examiner, who despite his best
2 efforts, is always under-funded and doesn't have time.
3 You in effect show that that later-drafted claim is
4 supported by an earlier-filed application, and the
5 result of this is that the claims often come out way
6 after the competitors have gone into the marketplace
7 with a lot of related technology.

8 And so then you really have the sunk cost
9 problem, and you have this issue that suddenly
10 injunctions might have an impact way beyond the
11 invention that is the subject of the patent.

12 So, yeah, that's the balance we have to draw.
13 We want to incentivise good inventions. We're not
14 trying to incentivize someone who cashes in by the
15 flukiest circumstance that he happens to hit the magic
16 invention on the rivet in the jet airplane that's
17 already built because that goes way beyond the value of
18 his invention.

19 MS. MICHEL: Great. More connections between
20 the notice function of patents and how we think about
21 injunctions, and, Anne, I interrupted you partway
22 through.

23 Let's get the comments of the other panelists on
24 this topic of -- we've been talking about manufacturer
25 must have infringed inadvertently and the necessity of

1 all infringements being detected with some certainty and
2 how to think about hold-up.

3 Christine, you had your tent up.

4 MS. MEYER: Right. I just wanted to sort of
5 back up just a little bit on hold-up more
6 generally because obviously it's a topic that's been
7 discussed a lot, and it appears to be one of the driving
8 factors at least for some in terms of talking about
9 patent reform and eBay and injunctions.

10 But I think we do have to recognize that hold-up
11 really is part of a larger phenomena which happens all
12 the time and which I don't think we have really a
13 problem with, which is the notion that value can change
14 over time, and that happens all the time.

15 I think yesterday somebody had mentioned
16 the technological progress that happens in an industry,
17 and your patent is only really valuable for some period
18 of time, and then something else eclipses it, so I think
19 we do want to be a little bit careful that we're not --
20 I'm not saying that the hold-up issue didn't arise, but
21 that we don't make it sort of seem as if it's sort of a
22 unique -- and it is sort of a problem that we haven't
23 seen before, because I think in any license negotiation,
24 the value of the patent is in its market context.

25 And the market context includes sort of what

1 else the commercializer is using, what else they're
2 selling, who the competitors are, and indeed sort of
3 where he is in his stage of development.

4 So I think we -- to make sure that we don't
5 make all of our rules contingent so something that we
6 act as if it is new when it's really embodied in
7 something that's very well known and not a problem. It
8 is.

9 MS. MICHEL: Anne, let's finish up with your two
10 factors.

11 MS. LAYNE-FARRAR: We eased our way into the
12 second factor, which is the detected, and I would add
13 enforced too. It's not just a matter of detection.
14 It's a matter of enforcement because sometimes you may
15 know who the rights holder is and you may decide to
16 infringe because you don't think they can enforce it, so
17 that's part and parcel of that factor.

18 Then the third is that it can be costly to
19 redesign, but not just costly to redesign. It's really
20 the difference between the cost to redesign *ex post*
21 versus the cost to redesign *ex ante*.

22 So if those two are exactly the same, we're not
23 talking about hold-up. We're talking about a highly
24 innovative pioneering technology that the manufacturer
25 couldn't work around, couldn't invent around, and that's

1 a very different scenario than *ex post*, something being
2 costly to redesign that could have been trivial or non
3 costly at all *ex ante*.

4 So I think that's another key point to keep in
5 mind. You could gloss over and just say it's costly to
6 redesign, it has to be what's the difference in the cost
7 to redesign *ex ante* versus *ex post*.

8 And then the fourth factor is this notion that
9 it's a small component of a larger product. This one I
10 think is related to the third one as well, because if
11 it's a minor incremental thing, chances are it's going
12 to be easy to work around *ex ante* and maybe expensive *ex*
13 *post* because in changing a rivet, you have to change the
14 whole wing or something along those lines, whereas if
15 it's a larger component, well then, it's the patented
16 technology that's largely defining the product and that
17 should be compensated.

18 So I think those are factors that are sometimes
19 lost in the discussion over patent hold-up. I think
20 there's been such a flurry of writing about patent
21 trolls and bad actors and everybody's focused on how
22 patents can be misused that they have forgotten that
23 it's a two-sided process, that there can be bad acts on
24 either side of the negotiating table, and that there are
25 circumstances that have to be in place for hold-up to

1 ever be possible.

2 MS. MICHEL: Henry Smith?

3 MR. SMITH: I actually wanted to follow-up on
4 exactly that point, that we're talking about the
5 potential for opportunistic behavior on both sides in a
6 negotiation, but in addition, you can regard the
7 traditional equitable factors as an attempt to deal with
8 potential opportunistic behaviors on both sides.

9 And we tend to say, it's equitable analysis
10 in terms of fairness and so forth, but if either side
11 gets away with opportunistic behavior, this is
12 economically distorting, and so it really can be cast as
13 an economic problem.

14 So the problem of hold-up is very familiar,
15 although these factors I think do a great job of exactly
16 or narrowing in on what exactly the hold-up problem is
17 because it is true that there are a lot of definitions
18 of it, but on the other side, if we went to a regime of no
19 injunctions, purely compulsory licenses, the problem
20 there is that the potential infringers will then go
21 around, A, looking for underpricing, and B, trying to
22 figure out what evidence will go in to the compulsory

(15 although these factors I think do a great job of exactly)TjET1

1 inadvertent.

2 Same thing with the certainty issue I think as
3 Chris and others have mentioned. I mean, the nature of
4 claim interpretation is such that certainty, rarely are
5 you going to be able to say, infringement can be
6 detected with certainty, so then you're left with the
7 third and fourth factors, which I think are taken into
8 account by *eBay*, and it goes into the public interest
9 issues and the balance of hardships issues.

10 And I think one thing that we learned from
11 equity is that equity doesn't save people from a
12 hardship that they've created themselves, so we have to
13 recognize that although there are -- we are trying to
14 deal with opportunistic behavior.

15 At the same time the law -- I think this was in
16 the wind surfing case, that we don't -- we don't --
17 patent law doesn't care about an infringer who has made
18 his empire out of infringement, but that still holds
19 true and that -- I think the courts of equity are not as
20 sympathetic to that type of conduct, whether it's
21 intentional or not.

22 MS. MICHEL: George?

23 MR. BADENOCH: A couple of things. The first
24 thing is I wish we could find something a little bit
25 better than the term hold-up to describe what we're

1 together. That really shouldn't happen.

2 The first two factors, which are really one
3 factor, are about the nature of the plaintiff and his
4 situation, whether or not he is being harmed in some way
5 beyond something that can be compensated by money or for
6 that matter an amount of money that we can quantify in a
7 reasonable way.

8 The second two factors are really about the
9 defendant and third parties. Once you've shown the
10 situation of the plaintiff, whether he has irreparable
11 harm in some way, and I agree it shouldn't require
12 direct competition or anything like that, then it's a
13 given. That's where he is on the scale of balance of
14 hardship. You know that, okay. Because of that harm,
15 that's what he will lose if there's no injunction.

16 Now, we look at the defendant, and that's when
17 you look at: Is the defendant's business going to be
18 impacted in ways that go way beyond the invention we're
19 talking because of sunk costs? In the case of the
20 public interest factor, you're looking at third parties.
21 Are we going to impact all kinds of people that have
22 nothing to do with this case? Are we going to have all
23 these other factors like piracy in the case of the
24 *Microsoft-z4* case, or are we going to have a public
25 health emergency or something like that? And you decide

1 based on this balance whether or not you should grant an
2 injunction, and that's really what I think the law
3 should be doing.

4 I think that's what the law is going to do. I
5 think we do have a situation as some people pointed
6 out -- where this all started, *eBay* came down and the
7 district court said, Oh, boy, here's new changes in the
8 framework, how about if each of you submit a brief on
9 what I ought to do and how these four factors apply and
10 maybe we'll have a hearing, and that's how much
11 consideration it got.

12 Now, as this literature is developing, and
13 everybody knows that this is a question, clearly there's
14 going to be a lot more evidence submitted. This is
15 going to start to be analyzed much more carefully.
16 These four factors are going to become real, and they're
17 going to be the subject of real studies and not just
18 something that you put into the opinion to explain what
19 you're doing. So I think with these four factors, it
20 should balance out.

21 MS. MICHEL: That's an interesting insight from
22 your litigation perspective. Are you saying then that
23 rather than the decisions getting shorter and more
24 perfunctory because the courts have been doing this
25 for a couple of years, it's actually possible future

1 decisions may become more thoughtful in that the courts
2 will be taking an account of some of these literatures
3 and these concepts, these economic concepts that we're
4 talking about?

5 MR. BADENOCH: I think definitely. I think now
6 the tendency to want to use your economic expert who
7 will be your damages expert, to actually present
8 testimony in support of your position on the
9 injunction -- I think that will become more normal. It
10 makes sense to me. I think the courts can, just like
11 they do sometimes with inequitable conduct which is a
12 judge issue.

13 When the witness is there, you can take some
14 testimony outside the presence of the jury, so you could
15 have expert witnesses testify about the damages which is
16 what the jury is going to decide, and then when the jury
17 goes home, take some more testimony while they're there
18 on the merits of the injunction, balance of hardship,
19 public interest, that kind of thing so that the court
20 will be armed with that and have more of a basis to make
21 this decision.

22 MS. MICHEL: How was it done early on, right
23 after eBay? How were people arguing and litigating
24 these cases, this issue if not the way you've just
25 described?

1 MR. BADENOCH: Immediately after *eBay* in my own
2 experience, as soon as the decision came down, the judge
3 said, All right, well, please submit a brief on how you
4 think this applies to this case, so each side basically
5 submitted a paper analyzing the four factors on how they
6 applied to the case, but there was not a whole track
7 record of evidence with expert witnesses, people
8 analyzing balance of hardships impact, public policy,
9 all these things like the papers that the panel members
10 have prepared since.

11 MS. MICHEL: And I think it will be an important
12 question for us, whether adding this additional expense
13 to trial is a good thing or a bad thing. Are we getting
14 better answers or are we just making litigation even
15 more expensive? And I would be interested -- we'll talk
16 with our afternoon panel, people that pay the litigation
17 bills, about that also.

18 John?

19 MR. GOLDEN: Right. Well, I tend to agree. It
20 does seem -- I haven't reviewed all of the cases, but it
21 does seem the courts and the parties are getting a bit
22 more sophisticated in trying to figure out how to deploy
23 these factors, and to some degree, I believe that's a
24 good thing.

25 There is a concern, to which you've alluded,

1 that there is just going to be a lot of extra effort for
2 which we may get little gain, and there I think one of
3 the ways to cabin that, which I think Henry alluded to,
4 is to say in the balance of hardship analysis -- and he
5 obviously has some hardship to the loss of their right
6 to exclude to begin with.

7 If you have a presumption that you start with a
8 hardship to the patent holder and that the infringer has
9 to show some disproportionate hardship relative to the
10 infringement, then you may be able to at least cabin a
11 number of cases where you have to get into an extremely
12 detailed analysis.

13 And I think -- I mean, I guess Henry [Smith]
14 has taught remedies, but in terms of how the four factors
15 should work or whether there are four traditional factors,
16 you may want to consult some of the literature for remedies
17 courses. I know Douglas Laycock, who was at the
18 University of Texas before I arrived there and now is at
19 the University of Michigan, has -- I've talked to him
20 about it, and he's put some of this in a supplement to
21 his current case book.

22 He says four factors, what traditional four
23 factors for permanent injunctions? There were no
24 traditional four factors for permanent injunctions, and
25 if you even look at the tests for permanent injunctions,

1 there you have a four factor test, the first of which is
2 the likelihood of success which is established by the
3 time you're in the permanent injunction stage.

4 This is why these first two factors are
5 redundant. They should have probably not been stated
6 separately.

7 What he says also is, on balance of
8 hardships, the test really has traditionally
9 been, in the permanent injunction context, a test of undue
10 hardship to the party against which is going to be
11 enjoined. It goes to this disproportionate burden
12 standard, so I think reference to this remedies
13 literature may at least help us understand where the law
14 has perhaps really, really been before we have gone into
15 this debate and also allow the analysis perhaps to avoid
16 some of the problems of turning this into too much of an
17 opening to inquiry.

18 And I can refer you to -- Laycock did write an
19 entire book on the injunction analysis, *The Death of the*
20 *Irreparable Injury Rule*, where he had surveyed several
21 hundred cases, thousands, I can't remember what the
22 number was, to see how courts were addressing injunction
23 issues.

24 But just quickly I want to talk a little bit
25 about what I initially volunteered to type out was this

1 issue of incentives for the two sides, and I think as
2 was mentioned, problems with strategic behavior on both
3 sides, so you have to worry about the patent holder
4 trying to provide incentives to provide proper notice in
5 getting claims that are both clear and that issued
6 within a reasonable amount of time so the market can
7 learn what the scope of these rights is going to be.

8 There are a number of ways to address that which
9 don't necessarily have to be dealt with by the courts at
10 this injunction stage. Of course, we've seen the PTO try
11 to put in place rules to limit continuation practice,
12 and the PTO has now adopted a rule saying that their
13 standard for definiteness is going to be different from
14 the standard that the courts will apply determining
15 whether claims are indefinite or not, which should allow
16 them perhaps to crack down a bit more on claims that are
17 unclear.

18 So you can imagine that in Europe as we have in
19 this country with respect to business methods, you could
20 have statutory provisions with carve-outs for prior user
21 rights which could -- might in some circumstances be
22 extended to rights based on activities or sunk costs you
23 had incurred before the claims issued as opposed to just
24 whether that was before the invention or the filing of
25 the application by the other party.

1 On the other hand, as was pointed out, we do
2 have the concerns with what the infringer or potential
3 infringer has done, and that goes to whether they've
4 done proper diligence to determine whether they're
5 infringing or potentially infringing in the first place.

6 Obtaining an attorney opinion letter doesn't
7 necessarily solve that because there are all kinds of
8 ethical problems that arise with attorney opinion
9 letters. I've been in practice. I'm aware of that, and
10 so making that necessarily the gold standard for what
11 gets you off as a good faith infringer is not
12 necessarily going to solve all your problems.

1 What incentives do we want to provide for them
2 to try to mitigate the cost of the ultimate design
3 around as this case drags on? And that was alluded to
4 in the *Broadcom v. Qualcomm* case where the judge
5 there, while allowing a sunset provision, also said,
6 "You know, you've had some years where you've
7 certainly been on notice of their patent rights as this
8 suit has gone on, you've been on notice." Usually claim
9 construction comes some months before you're actually
10 going to have your trial.

11 You might want -- infringers, if they do have a
12 window of opportunity to at least mitigate the potential
13 harm, you might not want to completely release them from
14 that in terms of how you structure the approach to
15 injunctions.

16 MS. MICHEL: Steve and then Anne since we were
17 most recently talking about litigation in the world in
18 which you live.

19 MR. MALIN: This has been an excellent discussion
20 of policy, and I wanted to take a little different
21 approach, which is to go back again to the cases, what's
22 happening in the cases.

23 What we see or what I have seen is the judge's
24 recognition in these injunction cases that ours is a
25 system that -- awards typically of money

1 damages, and that other types of relief, such as
2 injunctions, are extraordinary, so the ordinary case is
3 money damages, and injunctions are extraordinary.

4 I believe there was an economic basis underlying
5 this preference, and that's very old. We've had it for
6 a long time. We see it in contract cases. We see it in
7 other types of cases. In the reality of how these cases
8 are reported and appear to be decided, the courts follow
9 the factors in order.

1 those damages as speculative, okay?

2 Well, what then is the patentee left with? The
3 patentee is left with a damage to reputation but no
4 money damages because they cannot be determined. Some
5 types of price erosion are very difficult to determine,
6 so what you're left with is a very pragmatic decision
7 that says, Wow, I have a party with this right. They
8 clearly have suffered injury and yet they cannot recover
9 money damages. They're here on law and equity so why
10 don't we have equity fill in the damage or the injury
11 that the patentee can't have or can't otherwise recover?

12 You read in the cases very, very frequently the
13 court's observation that these lost things like price
14 erosion, damage to reputation as an innovator, sticky
15 customers, competition in a developing market, all these
16 kind of things that the judge concludes you can't
17 calculate damages based on those.

18 As soon as you read that language you know which
19 way the case is going to go, so issues one and two, the
20 irreparable harm and lack of adequate remedy of law,
21 then thereby go to the patentee.

22 Once that ball starts rolling, you almost can
23 predict what's going to happen when the defendant comes
24 in and says, Well, it's a hold-up, okay, and that phrase
25 is not in very many cases. I think what you get back is

1 what Henry [Su] mentioned from the *Windsurfing* case that,
2 Well, defendant, you shouldn't have built your business
3 on a an infringing product because by then, the momentum
4 is in favor of the patentee and you get to public
5 interest, and the court starts out saying, the
6 public has an interest in a strong patent system.

7 It takes a lot to -- once that momentum starts
8 going, it takes a lot to push it back, and it seems to
9 be just a coincidence of which way the factors are
10 ordered, but I would agree with -- I think George made
11 the comment that people come in and they argue all four
12 factors, and they probably argue them in the order that
13 they are in the case, right, because that makes sense.

14 But if you're a defendant and you believe this
15 is a hold-up, right up there with your non-practicing
16 plaintiff, maybe you need to elevate that relative harm
17 or damage to the public up to the front of your brief to
18 try to get the -- to try to get your point made, because
19 the opinions are very consistent, and when you start
20 reading the first factors, it's very, very rare that the
21 court will say, while I found these two factors in
22 favor of the patentee, the balance of the hardships
23 means I'm going to turn everything around and not grant
24 the injunction.

25 So it's more of a pragmatic view, but again I

1 think that the judges look at this decision and what's
2 that expression, a page of history is worth a volume of
3 logic from the eBay case, that the preference is for
4 money damages, but if you can't prove money damages, or
5 just in your case, especially if you have a defendant up
6 there who successfully kept out your damages model, the
7 court will be very inclined to grant you the injunction
8 because there is an unfulfilled injury.

9 MS. MICHEL: Anne?

10 MS. LAYNE-FARRAR: I wanted to follow-up on this
11 compulsory licensing notion, and I completely understand
12 and agree with your point about the preference for money
13 damages, but I think there is a dynamic aspect to these
14 remedies that needs to be kept in mind, and that is how
15 the ability or at least the chance of getting an
16 injunction affects future negotiations.

17 So if there were categorical rules, which are
18 obviously desirable because they make the analysis
19 easier, then you don't have to go through this expensive
20 process of having the experts every single time, but if
21 there's categorical rules that are inappropriate and you
22 rule out, for example, injunctions for non-practicing
23 entities, which has been one of the proposals in the
24 literature, you are affecting the long-term ability of
25 all non-practicing entities to license. In essence, a

1 an agreement.

2 So I wanted to make a point about the history of
3 remedies and then offer an example of how I think these
4 things work out. I'm familiar with Laycock's work, and
5 I admire it a lot. I think what's interesting about the
6 four factor test is not so much that it characterizes
7 the way courts did remedies in a lot of areas, but that
8 it's kind of an earlier gauge on the way that the
9 courts did remedies and is the result of these principles
10 essentially being kind of changed and evolved over time
11 to make the test work better, make it a better standard
12 for whatever body of law we're doing remedies in, right?

13 So as an example -- that sounds unclear, so let

1 So the *Sony* case says, if it's a
2 commercial use, then the burden shifts to the
3 defendants, presumptively unfair -- the burden shifts to
4 the defendant, right, to lift that presumption, and then
5 there's a whole bunch of arguments about, what's a
6 commercial use, so another example. If the use is
7 transformative, then even though it's commercial, the
8 burden doesn't shift, so what does transformative mean?

9 So in every instance when the court makes a
10 holding, when some court makes a holding that kind of
11 structures the analysis, this opens up the kind of
12 smaller set of questions about what the structuring
13 actually means and how it works.

14 I tend to think over time that that's
15 productive, right? It's like breaking down big rocks
16 into little rocks. The little rocks are still rocks,
17 but they're a little more tractable, and people complain
18 about fair use, and I complain about it too, but for
19 different reasons because I think the stakes are too
20 high.

21 As an example of dynamics, of how equitable
22 principles can evolve, I think that's potentially
23 useful.

24 MS. MICHEL: Henry Smith?

1 would add as a helper friendly amendment that
2 there are factor tests and there are factor tests, and
3 so I think one difference between equitable factors and
4 the fair use factors potentially is that -- the
5 equitable factors actually do have a structure
6 built in them that I think, as Steve was saying, is
7 they're being rediscovered by the courts.

8 I mean, the idea that the first two factors are
9 especially important is reflected in the fact that they
10 were jurisdictional at one time, and that we are talking
11 about typically in cases where we're talking about
12 injunction, yes. Oh, in some overall sense it's an
13 extraordinary remedy, but usually we're focused on a
14 situation where we think for historic and functional
15 reasons that injunctions are pretty likely. So in the
16 case of trespass, there was this traditional rule
17 that -- or maxim -- that equity will not enjoin in mere
18 trespass.

19 Well, trespass is a serious thing in the case of
20 land, and now we think, Oh, well that's the unusual
21 usual remedy for trespass. Well, why? Because the
22 exceptions in that area sort of swallow the rule, so if
23 a violation is continued or threatened to be happening
24 in the future and so forth, that usually gets us pretty
25 far into an injunction, and that relates to the idea

1 that damages are very hard to calculate. We don't want
2 people coming into court every week to come up with new
3 damages, and if at the time of litigation we can't value
4 them, we're fairly far along the way towards an
5 injunction.

6 Now, it may well be that there is a big problem
7 with hold out, and that gets to the disproportionate
8 idea, so there is, within each of these factors, a
9 structure and a structure that we're worried about this
10 problem in terms of not being able to use damages, but
11 then we might be worried in cases of disproportionate
12 hardship that things are really flip the other way
13 around or in the public interest, that there's a big
14 public interest problem.

15 But I think it's a mistake to think that we've
16 got a four factor test in the same sense that the
17 Supreme Court next week will come up with a four or nine
18 or ten or twelve factor test. That's not really the
19 equitable decision-making model. There's actually a lot
20 more structure built into it for both historical and
21 functional reasons. It's not just, here, we'll just
22 discuss all these four things and come up with
23 something.

24 There is a structure, and I think it's
25 interesting that the post-eBay cases are beginning to

1 MS. MICHEL: Christine?

2 MS. MEYER: I wanted to really address the
3 issue of whether or not -- and I know we've been taking
4 about this as a given, that eBay and the four
5 factor test will solve quote, unquote, this
6 problem of hold-up, but I think that's not necessarily
7 evident and it's going to require some specific guidance
8 from the courts, and let me just sort of explain why.

9 The reason why we think that not granting an
10 injunction might actually solve this problem is because
11 in the case of an automatic injunction, the parties then
12 have to go back -- if the infringer wants to practice
13 the patent has to go back and get a license at the point
14 in time after which the costs are sunk, right, so we
15 have to pay this. If he wants to practice that, he has
16 to pay this rate that is considered too high.

17 In the case where there is no reduction, the
18 question is: What royalty rate is imposed? And this
19 really goes to what the courts are going to instruct the
20 experts to assume in terms of setting that new royalty
21 rate. It is the case, as a recent court did, that the
22 court says, "Look, just go ahead and assume there's a new
23 hypothetical negotiation that is similar in a lot of
24 constructs to the one that gets you a reasonable royalty
25 for damages", but now set it at the date of the verdict,

1 that doesn't solve any problem whatsoever.

2 And some courts -- as I said there's a court
3 that has recently put that ruling down. There are other
4 courts that say, No, we're going to just continue the
5 reasonably royalty that was found for damages purposes
6 which obviously has a hypothetical negotiation on the
7 eve of first infringement.

8 So I think there is still an open question as to
9 whether or not exactly how the four factor test is not
10 only implemented, but then what royalties come out of
11 that on an ongoing basis. If you don't have an
12 injunction, that is really still an open question.

13 And I think this is a place where it may make
14 sense for the courts to really -- for this to sort of
15 bubble up and to have some more certainty here.
16 Otherwise we're not even solving the problem that we
17 sort of thought we were solving.

18 MS. MICHEL: Christine's identified one of the
19 most difficult topics in this area, which is: What do
20 you do if the injunction is denied?

21 I would like to spend some more time exploring
22 the four factors and how to deal with them and then come
23 back to this critical issue, but within exploring the
24 four factors and how they should be analyzed, is it part
25 of the -- or should it be part of a court's thinking

1 about, Well, what does it mean to deny this injunction?
2 John?

3 MR. GOLDEN: Right.

4 MS. MICHEL: The four factors generally.

5 MR. GOLDEN: Right. So I guess the first thing
6 I will say just in terms of the irreparable harm, I
7 guess one question there is: To what extent -- if
8 you're dealing with a patent holder who is just looking
9 to license their patent, to what extent is the loss of
10 the ability to set the terms of that license an
11 irreparable harm?

12 The courts don't seem to have -- particularly
13 when they're simply looking to competition as opposed to
14 non-competition, seem to be giving too much credit to
15 that, but patent licenses quite commonly are quite
16 complicated deals or at least not simple assignments of
17 a royalty rate.

18 For one thing they'll often combine lump sum
19 payments with reasonably royalties or milestone
20 payments, different types of payment regimes to try to
21 force the licensee to actually try to exploit the
22 invention in a timely fashion.

23 They can be limited time licenses. They can
24 include grant back provisions or reach through
25 provisions to deal with downstream developments or

1 One thing I noticed has been lost a little there
2 was what the district court in the eBay case was
3 originally saying was -- actually the district court
4 didn't award an ongoing royalty or in the initial
5 opinion that was going up to the Supreme Court but said,
6 Look, if eBay continues to infringe, then I'm much more
7 likely to give enhanced damages. I might give you your
8 treble damages there, and that -- and MercExchange had
9 to constantly answer questions about, why wouldn't
10 enhanced damages be enough. Of course if you crank up
11 the damages high enough or multiply it high enough, it
12 effectively works in many ways like an injunction.

13 So that might be another potential lever that
14 courts could use as opposed to injunctive relief.

15 MS. MICHEL: Okay. George, thoughts on the four
16 factors, and also as we keep discussing this, we would
17 like to hear the panelists' ideas more on the balance of
18 hardships and the public interest? We didn't dig quite
19 as deeply into those yet.

20 MR. BADENOCH: Okay. Well, with that lead in, I
21 think what Steve said was really the key point, that as
22 the law evolves here, it's really important to stop
23 having this momentum set by the order in which the court
24 promulgated the four factors, the notion that everybody
25 breeds them together, that once you've shown irreparable

1 believe, look to the Patent Office to solve this, and
2 the reason is basic. It's a funding issue.

3 The Patent Office usually, not always, but
4 usually is looking at patents in the embryonic stage.
5 They're looking at millions of inventions way before we
6 know which ones are going to turn out to be worth a
7 billion dollars in the marketplace.

8 So the amount of funding it would take for them
9 to do the job carefully enough or fast enough or
10 precisely enough would just be enormous, so you can't
11 get away from the fact that only some of those patents
12 are going to be the subject of a litigation where
13 there's a billion dollars at stake, and you can't get
14 away from the fact that, therefore, there's going to be
15 uncertainty in the claims, shortcomings in what the
16 examiners understood or didn't understand and delay in
17 when the claims come out.

18 Therefore you're going to have innocent
19 infringers who may have their business impacted in all
20 kinds of ways beyond the value or having anything to do
21 with this invention.

22 Just one more comment on that. I also think,
23 just like I think hold-up is an unfortunate term for
24 plaintiffs -- the infringer realistically, it's gotten
25 all these statements that say the infringer

1 shouldn't be heard to complain, he's the infringer. The
2 infringer is someone who lost a civil litigation often
3 in a very, very close case. We shouldn't be penalizing
4 them by labeling them, and so I think that's all wrong,
5 too.

6 I think you can't get away from the fact that
7 because of the uncertainty and the delay and the way
8 patents come out because of the flukish nature in which
9 they sometimes impact all or part of the business of the
10 defendant beyond the patent, and many, many third
11 parties that you're going to need to do this injunction
12 review in important cases.

13 MS. MICHEL: Steve? Then Henry Su.

14 MR. MALIN: Two points. One is related to the
15 question of presumptions. I think that if you look at
16 the cases, you will find that the courts have, even if
17 they haven't named it, come up with certain
18 presumptions. If you're a direct competitor,
19 statistically you're presumptively going to get your
20 patent. If you have price erosion -- pardon me, you're
21 going to get your injunction.

22 Price erosion, damage to reputation, the courts
23 cite the previous cases for that, and often there's not
24 a lot of analysis. They simply rule that one for the
25 patentee, and as I said before, you know which way it's

1 going to go.

2 On the question of should there be a
3 presumption, maybe a statutory or rule based presumption
4 in favor of irreparable harm for the person, irreparable
5 harm, inadequate remedy of law, my understanding is, for
6 example, if you have a party that destroys some evidence
7 and you end up with a jury instruction that says we are
8 going to presume that evidence was harmful, okay, that's
9 a type of presumption.

10 The reason you do that is because the bad person
11 always has the option to actually get the information
12 and bring it forward, and you want to encourage them to
13 do that.

14 It seems to me that the evidence of irreparable
15 harm is pretty much in the patentee's possession, if it

1 guidelines, so for a long time, the government said to
2 the judges, Hey, you need to follow these sentencing
3 guidelines because a decision was made previously that
4 there was too much variation, okay? Well, since
5 that time, the sentencing guidelines are not viewed with
6 the same esteem that they were once, and maybe we say,
7 Hey, district judge, we're going to leave it up to you
8 again.

9 So I think that it is a very important policy
10 question of: Do we leave it fuzzy and just trust that

1 you have a pretty good sense of which way this case is
2 going to go.

3 What kind of analysis should we be doing on the
4 second and -- I'm sorry, the third and the fourth
5 factors, the balance of hardships, the public interest,
6 and how should the courts be weighing these different
7 concerns?

8 Henry, can you take that on and any other
9 comment you were about to answer? I don't mean to cut
10 you off.

11 MR. SU: Sure. I think I can lead into that
12 with this observation, which is that I would have a
13 concern if we were to frame the first two factors, the
14 irreparable harm and inadequacy of compensation factors,
15 in terms of -- or principally in terms of -- whether we're
16 helping or hurting the patentee's ability to get
17 licenses on terms that it wants.

18 I think that the injunction analysis is more
19 than just trying to facilitate a bilateral transaction
20 between a patentee and an infringer. I think that the
21 kind of analysis that we've been seeing from the courts
22 since *eBay* where we're taking the in-depth nature of the
23 competition and the nature of the market, the structure
24 of the market, are things -- that is the type of inquiry
25 that we want.

1 And that sort of leads into the fact that there
2 are other parties involved or non-parties who are
3 implicated in any type of injunction, and that's why we
4 have a balance of hardship and public interest. I think
5 with balance of hardship, the way I would look
6 at that is if you follow the case law. It can't be just
7 an infringer claiming that there's going to be an impact
8 on the part of its business that relates to the
9 infringement as a result of the issuance of an
10 injunction.

11 It has to be more about again a fuller inquiry
12 about the nature of the infringer's business, how it
13 operates, and whether an injunction is going to have too
14 much -- in essence too much negative effect beyond just
15 simply remedying the infringement.

16 MS. MICHEL: And could hold-up be that negative
17 effect?

18 MR. SU: Right.

19 MS. MICHEL: John?

20 MR. GOLDEN: All right. Well, responding to
21 Henry's [Su's] point, I think part of the question is where
22 you want this kind of market analysis to enter. I think
23 traditionally -- and again I made a reference on
24 remedies law to Douglas Laycock, but any survey of these
25 cases, I mean, irreparable harm is the sense

1 historically was that this goes to cases where you did
2 not -- you don't have essentially fungible goods for
3 which there's a well established market.

4 So in essence, patent rights seem to have that
5 characteristic. They're generally not fungible goods,
6 and they're certainly not a well functioning market to
7 determine their value.

8 All these -- so one approach -- I'm not sure as
9 a policy matter you could say even if that was
10 traditionally how the irreparable harm analysis was
11 done, maybe what the district courts are doing, and
12 Chris is suggesting evolving approach to equity, is
13 better understood to make this more of a bar.

14 But, I mean, an alternative approach could be
15 made to make the irreparable harm showing, again to have
16 a presumption of irreparable harm, and one thing that
17 usually has to be shown -- or it's often just skipped
18 over because it's kind of assumed, but generally you
19 would want to have a threat of continuing infringement,
20 referring to sort of what Henry [Smith] was talking about
21 with trespass, where the adjudged infringer may have
22 better information about whether there's really a threat
23 of continuing infringement and might be able to rebut
24 that, if they move their product line elsewhere.

25 But then you could have this kind of market

1 analysis enter into the balance of hardships analysis,
2 and that's where I think the non-practicing patent holder
3 could rightly, under what I view as discrimination,
4 because we can't have nondiscrimination -- but this
5 would be consistent with my anti-discrimination
6 principle, the non-practicing patent holder could be as a
7 disadvantage relative to the competitor there, because
8 adjudged infringer -- I'm using adjudged infringer to
9 make it sound a little better, I don't know exactly what
10 you're calling them at this point -- the adjudged
11 infringer may say, Look we're going to suffer severe
12 hardship if you get this injunction.

13 What does a non-practicing patent holder say in
14 response? Not too much, certainly not as much as a
15 competitor, so you could structure the debate in that
16 way and have it entered there.

17 There is a concern, particularly to some degree
18 it's almost -- I view eBay as having championed the
19 four factors because they wanted to create an additional
20 hurdle, but it's interesting that it seems almost -- it
21 can create momentum for the plaintiff, for the
22 patent holder as they go through.

23 I've already shown four factors rather than
24 merely one, but there is this concern that with this as
25 a third factor, you could have momentum developing, and

1 therefore you don't want the debate there.

2 But I think it could be placed there.

3 MS. MICHEL: Okay.

4 MR. BADENOCH: Just quickly, how about using the
5 term poor blind sided defendant?

6 MS. MICHEL: Chris?

7 MR. SPRIGMAN: So a couple points. I think
8 ultimately there will be presumptions that are
9 structured here. I'm not, at least at the moment,
10 terribly excited about a presumption in favor of
11 irreparable harm just because the first guideline I
12 would use in structuring presumptions is I want to
13 incentivize the party that has the evidence to produce
14 it, all right.

15 And so the harm evidence is typically going to
16 be in the hands of the patentee, so I want the patentee
17 to cough up, so you know exactly how to structure that
18 presumption we can talk about, but that's the problem
19 for me.

20 So you asked about the third and fourth factors.

21 So the third factor I think is a great repository for
22 terribsnda6ho6teI6ink is a great repository for

1 thing that gives you negotiating leverage.

2 So the fourth factor, I think the fourth factor
3 is kind of a wild card, and I think -- so I looked at
4 this opinion in *Amgen v. Hoffman LaRoche*, so
5 there is some long discussion there about the fourth
6 factor, and that's a complicated opinion because drug
7 pricing is so complicated.

8 So the court goes through this long analysis
9 about whether there's going to be real substantial harm
10 to this federal program coming out of an injunction and
11 finally concludes that there won't be. I haven't seen a
12 lot of that, so not a lot of cases really pay that much
13 attention to the fourth factor.

14 If the fourth factor -- if lawyers decide that
15 they're going to make strong fourth factor arguments and
16 the courts are actually going to hear those, there's
17 potential where the rubber meets the road because the
18 fourth factor could be potentially a series of kind of
19 *ad hoc*, social welfare balancing decisions, right?

20 So yeah, the patent system is important, but
21 access to cheap drugs is important to, and so we're
22 going to deny an injunction and we're going to make
23 these parties negotiate for a price or if they don't,
24 we're going to set a price.

25 That's I think the potential big departure, and

1 I have not -- at this point I tend not to pre-worry and I
2 don't see that happening, right? Maybe because it's
3 such a kind of ideologic tension with the patent system
4 as it's existed for a long time that it would just take
5 a big change for it to happen, but that's potentially
6 where the eBay phenomena kind of widens out into
7 something that is theoretical bigger.

8 MS. MICHEL: That raises the question of when
9 should higher prices to consumers be a public harm?

10 MR. SPRIGMAN: There's a huge baseline problem
11 with IP law, but there's a huge baseline problem
12 everywhere, so think about takings law, right? So I
13 have a piece of property they want to build an
14 interstate highway on. How do they compensate me? Do
15 they compensate me for the value of the property *ex ante*
16 their decision to build a highway or the value of the
17 property *ex post*?

18 So takings law faces that problem, so that law,
19 do we think of the baseline as what the patentee would
20 be able to get with the patent terms that are set plus
21 an injunction or would the patent terms that are set be
22 with the baseline being money damages, right?

23 So we have to make that decision, and you know,
24 the way lawyers tend to make these decisions I think is
25 spectacularly unproductive which is to say, it's a

1 right to exclude, and a right to exclude means
2 exclusion. Historically, that's just only sometimes
3 true, and logically it's not necessarily entailed, and
4 it's not entailed in the right to exclude, right, which
5 is one thing I think Justice Thomas says which is
6 helpful.

7 MS. MICHEL: Okay. John?

8 MR. GOLDEN: I just want to say on the
9 informational point, I mean, I think one of the
10 questions -- my concern partly about -- when this is
11 treated with say non-practicing patent holders, it may --
12 certainly when we've had competitors, we've see some
13 serious information come out on the irreparable harm
14 point, although I think we'll probably arrive at the
15 balance of hardships analysis as well.

16 I'm not sure I buy it so much -- I'm not sure
17 what great information you're expecting to get from a
18 non-practicing patent holder. Then I worry about the
19 effect of this is that we never learn the information
20 about the hardship from the infringer that might be the
21 real source of information that we could gain from that
22 particular type of situation.

23 Because again I was in the eBay case, eBay had
24 really taken away its ability to argue to a certain
25 degree balance of hardships because it said, we

1 could design around this for \$10,000 didn't really make
2 an affirmative public interest argument. It just said,
3 business method patents are often vague, so they don't
4 have so much of a public interest attached to them.

5 So it didn't have a case for the public interest
6 and the continued operation of eBay, and it really
7 had to rely on the first two factors to essentially
8 kill -- I should say in the district court originally
9 their hardship was that we might face contempt
10 proceedings if you enjoin it. They [eBay] didn't really
11 push that before the Supreme Court, I think wisely, as a
12 hardship, but they might have.

13 MR. SPRIGMAN: John, can I just give you an
14 example of what --

15 MR. GOLDEN: But I'm just saying that the point
16 is I think there at least was a move at that time to
17 really make this turn on those first two factors, in
18 which case you're really not getting much information at
19 all if your interest is to try to get information from
20 the parties.

21 MS. MICHEL: We will need to wrap up soon,
22 unfortunately, so I want to get your concluding
23 thoughts, and also any thoughts on what to do when the
24 injunction is denied? I don't want to leave that topic
25 it. T4Detit..008sloRl?eon tt..0Chrtrriess?'4fdlylP18]intrln 1IP

1 MS. MEYER: Right. Well, I wanted to in,
2 conclusion, talk a little bit about the issue you
3 just brought up about competition because we are at the
4 FTC and competition matters. I think there a couple
5 things to keep in mind obviously if an
6 injunction were to issue, the first thing is: Is there
7 product on the market, that's sort of -- so the question
8 is: Does that matter or does that not?

9 I think there's the issue of price, and people
10 have brought it up, and that competition spurs
11 the lowering of prices, which obviously can also factor
12 into the irreparable harm piece because the prices could
13 be lowered so much that the patent holder, if he's a
14 practicing entity -- that there's no royalty such that
15 the infringer can pay the patent holder and make them
16 whole. Prices go down enough and the total profits of
17 the industry are reduced.

18 But there's also the possibility for consumer
19 harm even in the case of no price erosion. If we're
20 talking about a product being taken off the market,
21 that's very different, unique and has no
22 close substitute.

23 So I think on the competition's side, I think we
24 need to broaden that beyond competition and talk about
25 consumer harm. It could be from lots of competition,

1 but it could just be from loss of a differentiated
2 product that increases consumer welfare.

3 Then there's the additional point of: Well,
4 what if these parties can actually settle, does that not
5 take care of the competition issue? And I think there
6 we have to be careful because if the hold-up you're
7 talking about really is a serious issue, then you have a
8 situation in which, yes, there's a product that will
9 still come into market if the parties can agree to a
10 royalty, but if it's a per unit royalty or percentage
11 royalty, then you're talking about adding costs and
12 arguably some w rgBBB36.percentage

1 that the purpose of this inquiry is also to allow the
2 court to get as much information as possible to fashion
3 an injunction that remedies infringement but at the same
4 time is not overbroad, doesn't impede upon competition
5 and innovation outside the injunction.

6 So my point is you can also say that the grant
7 of an injunction can stimulate innovation and
8 competition because if the injunction is only as broad
9 as the infringement is, infringement was, that's what
10 patent policy cares about. We don't want to encourage
11 infringing competition, but we do want to encourage
12 competition around -- outside the scope of the
13 injunction, the same thing with design around activity
14 which is a form of innovation outside of the scope of
15 the injunction.

16 MS. MICHEL: Would you put structuring and
17 injunction -- for instance, injunction will take effect
18 a year from now, give the infringer time to design
19 around into that category?

20 MR. SU: Certainly, so things like sunset
21 provisions as we've talked about. These are ways in
22 which the court can try to address the issues of balance
23 of hardship and public interest without saying, Okay,
24 I'm not going to grant the injunction or I am going to
25 grant it. There are ways to tailor it so that it deals

1 with -- addresses the problem but, it doesn't overstep
2 the boundaries.

3 MS. MICHEL: George?

4 MR. BADENOCH: When you say concluding remarks,
5 you're now opening it up for what to do if you don't
6 grant an injunction as well?

7 MS. MICHEL: Yes, please.

8 MR. BADENOCH: I agree with what someone said
9 before about the idea that you don't just move a
10 hypothetical negotiation to the date of the verdict and
11 then just say, Okay, now design what would be a royalty.
12 Obviously if you do that, you're locking-in the same
13 sunk costs that probably were the problem, one of the
14 problems that led you to not granting the injunction in
15 the first place.

16 I also don't think it's a good idea to say,
17 Well, don't do anything, we don't want the courts
18 setting the private deal here, so we'll decide the past
19 and then we'll just see what happens and tell the people
20 to go back, either negotiate a license or you're going
21 to be a willful infringer, because now you're just going
22 to get the price of willful infringement high enough in
23 that situation. You're going to have the same problem
24 that you had with the hold-up in the first place.

25 It seems to me that in the typical case, the

1 time for a hypothetical negotiation incidentally should
2 be at the decision time for the infringement. If the
3 claim comes out late, you may already have sunk costs
4 that create a hold-up problem. It should be at the
5 decision time, and if it is at the decision time and the
6 jury decides that, there's no real reason why that can't
7 be a running royalty rate.

8 There's also no real reason why the court can't
9 have the -- give the parties a chance to go negotiate
10 details if they want and then help them out if they
11 can't agree. That's okay, but setting the royalty on
12 that basis I think is normally fine. Where sunset
13 provisions don't work to adjust for the sunk costs
14 problem.

15 One comment: There has been some comments that
16 say, Wait a minute, prospective royalties are completely
17 different from past royalties because now he's an
18 adjudicated infringer, and I think that is not quite
19 right. I mean, it's been said quickly. It's been
20 picked up in a few situations, but that was a special
21 case -- that was a special case where the infringer had
22 previously been enjoined.

23 If you think about it, in the hypothetical
24 negotiation used to set royalties, you have two
25 presumptions. One, that the patent is valid and

1 infringed, that these negotiators are assuming that when
2 they arrive at the royalty, that's what the jury is
3 instructed when they decide the royalty.

4 In my mind that's no different if I assume 100
5 percent the patent's valid and infringed -- that's no
6 different than when it's adjudicated valid infringed.
7 It's the same. You can't get above 100 percent validity
8 and infringement as much as some courts would like to, but
9 you can't.

10 There is a another thing that can be different
11 in some cases. You also presume in the hypothetical
12 negotiation that you have a willing licensor and a
13 willing licensee, and it may be in a case even where you
14 decide that you can't give an injunction public
15 interest, balance of hardship reasons, that you really
16 didn't have a willing licensor, and if that were true,
17 then that would justify the difference in considering
18 the ongoing royalty rather than otherwise. I'm not sure
19 they should be any different.

20 MS. MICHEL: Anne, I'll ask you to give our last
21 remark, and then let me mention the record is open for
22 thoughts we didn't get to, and we welcome comments on
23 the topic.

24 MS. LAYNE-FARRAR: Very briefly, I just wanted
25 to follow-up on this point about the royalties in

1 absence of an injunction, and I agree entirely that you
2 don't want to set the rules so that you entrench any
3 hold-up, but on the other hand, you also don't want to
4 set the rules to provide incentives for infringers to
5 wait for license negotiations; in other words, to
6 encourage this inadvertent infringement and that means
7 you have to, while not allowing for the use of sunk
8 investments, take account of any commercial or success
9 in the marketplace, the removal of risk that existed at
10 that particular point in time.

11 Bearing in mind that whatever rates are set are
12 going to likely be public and therefore become part of
13 this body of comparable rates or other licenses and
14 other actions later down the road.

15 MS. MICHEL: Thank you. And we will come back
16 at 1:45.

17 (Whereupon, a brief recess was taken.)

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1 PANEL 2: INDUSTRY ROUNDTABLE DISCUSSION.

2 MODERATORS:

3 SUZANNE MICHEL, FTC

4 ERIKA MEYERS, FTC

5 PANELISTS:

6 ROBERT A. ARMITAGE, Senior Vice President and General
7 Counsel, Eli Lilly & Co.

8 BERNARD J. CASSIDY, General Counsel, Tessera, Inc.

9 GARY H. LOEB, Vice President for Intellectual Property,
10 Genentech

11 DOUG LUFTMAN, Palm

12 KENNETH M. MASSARONI, Senior Vice President and General
13 Counsel, Seagate Technology

14 KEVIN H. RHODES, Chief Intellectual Property Counsel, 3M
15 Innovative Properties Co.

16 DONALD R. WARE, Partner, Foley Hoag, LLP

17

18 MS. MICHEL: Welcome back from lunch. We will
19 be taking a break because Erika's cookies are so good,
20 our panelists are insisting to have a chance to eat
21 them, so we'll see how it goes, between 3:00 and 3:15.

22 Erika, please take it away.

23 MS. MEYERS: Thank you for joining us for the
24 last panel of the February installment of the Evolving
25 Intellectual Property Marketplace. This panel will

1 explore recent changes in injunction law and willfulness
2 standards, their impact on innovation, licensing and
3 business strategies.

4 We have a terrific group of industry panelists
5 here today, who I will introduce in alphabetical order,
6 and I think we're going with the name, rank and serial
7 number introductions again.

8 So we have Bob Armitage, who is Senior Vice
9 President and General Counsel for Eli Lilly; Barney
10 Cassidy, who is General Counsel and Senior Vice
11 President of Tessera. Jack Lasersohn will be joining us
12 in a few minutes, and he's a general partner of the
13 Vertical Group. Gary Loeb is Vice President,
14 Intellectual Property for Genentech.

15 Chip Lutton is listed on your agenda.
16 Unfortunately he could not be here today due to a last
17 minute emergency, but Doug Luftman has graciously
18 stepped in to take his place. Doug is Associate General
19 Counsel of Intellectual Property at Palm.

20 Ken Massaroni is Senior Vice President and
21 General Counsel for Seagate Technology. Kevin Rhodes is
22 the President and Chief Intellectual Property Counsel of
23 3M Innovative Properties company, and last, but not
24 least, Don Ware is Chair of Foley Hoag's Intellectual
25 Property department.

1 investments, and to put some real world spin on
2 that, you have patent holders who can do nothing about
3 the fact that the company that they want to accuse of
4 infringement is in this 271(e)(1) safe harbor and can't be
5 accused of infringement, and that maybe the balance of

1 with pharma and biotech is the length of our product
2 life cycles. We just tend to have a longer product life
3 cycle where typically the products are in their peak
4 sales at patent expiration or at the time of patent
5 expiration, which isn't always the case in other fields
6 of technology.

7 So based on I think those three factors, largely
8 where I come out is that we -- is that while,
9 philosophically, I'm in favor of some flexibility, I

1 in the *Amgen-Roche* case that really most firmly
2 dealt with this is: Can you look at the nature of the
3 patent in looking at the public interest aspect, so the
4 whole debate we had yesterday of, Are some patents
5 better than others, and are some patents sort of grade A
6 economic patents and some grade B and some grade C?
7 Does that issue arise when you're looking at the public
8 interest factor? Can you look at the nature of the
9 invention?

10 So is an invention about cleaning a cell culture
11 vessel less entitled to an injunction against a product
12 that makes that then a patent that squarely covers the
13 target of a molecule that is aimed at fighting cancer?
14 Does that come up in the equitable analysis?

15 And frankly we just don't know, so I think all
16 of that unpredictability puts us in a little bit of an
17 awkward situation because we're now sort of in a
18 situation where we have to really guess and I think
19 largely negatively impacts sort of the way we are able
20 to predictably invest in our research programs.

21 MS. MICHEL: All right. Doug, same question,
22 how does the ability to either obtain an injunction or

1 background on Palm I think might be helpful.

2 Palm is about a \$1.2 billion company. We
3 have about a 1,700 patent portfolio. We are pretty much
4 on both sides of the issue. I would say we're strong
5 proponents of product differentiation being able to be
6 protected. At the same time we're confronted with an
7 enormous amount of lawsuits on a lot of dubious patents
8 and a lot of patent licensing entities.

1 Mark Lemley's study, suggests that high tech products
2 have between 10 -- potentially 10 to a hundred thousand
3 patents that may be applicable to your product?

4 So with this plethora of patents that
5 potentially are applicable and with obviously the
6 visibility as to whether it applies to us or not, not
7 being clear until after we have invested all the R&D,
8 productized the product and actually shipped it,
9 suddenly we get a variety of different assertions coming
10 after us, and the dynamic was one that was very
11 unbalanced.

12 And I agree with what the panelists prior to
13 this suggested, which is I agree with predictability. I
14 agree with transparency and certainty, and the problem
15 was prior to eBay that there wasn't that. There was
16 this very, very skewed negotiation that would go on
17 where you were really looking at a pure risk mitigation
18 rather than actually saying, Is it infringed, is it
19 valid and then what is the value associated with it.

20 So to answer your question, I think that the
21 dynamic that we're facing today, post eBay, is that I
22 think the playing field has been balanced much more so.

23 But it isn't that the patent holder has this
24 nuclear weapon that can completely annihilate all of your
25 revenue at the end, and at the same time it provides the

1 patent holder enough negotiation leverage to be able to
2 actually have a reasonable discussion where fair
3 compensation is really the topic, not this threat of
4 injunction over your head with regard to the matter.

5 MS. MICHEL: Don?

6 MR. WARE: Thank you, Suzanne. I should say at
7 the outset that I was asked to speak today from the
8 perspective of two constituencies in particular,
9 universities and small biotech companies, and I should
10 make clear that I'm not here as counsel for any
11 particular institution or trade group, but I do speak
12 from considerable experience in representing
13 universities and biotech companies.

14 So I wrote out some background remarks that I
15 think are useful maybe to set some context, because I
16 think there has not been so much discussion in the last
17 couple of days about particularly the university
18 perspective.

19 As I will explain, there's a close link between
20 universities and small biotech companies, which together
21 provide a pathway to take medical innovations from the
22 bench to the bedside as we like to say, and the process
23 very much depends on the patent system as the engine for
24 technology transfer.

25 So let me begin with universities. We all know

1 this? It's very simple. What universities learned
2 before Bayh-Dole and what Congress recognized in
3 enacting Bayh-Dole is that without the ability to
4 license out exclusive patent rights, the private sector
5 would not invest in university technology. University
6 technology is typically early stage and unapproachable.

7 So that a licensee will need to make a very
8 substantial and highly risky investment for many years
9 before it earns a return. Last year I spent some time
10 on the Hill talking to Congressional staffers about some
11 different legislation, the proposed follow-on biologics
12 legislation which I know that FTC is also studying.
13 One thing that struck me was that at first the staffers
14 on the Hill all assumed -- and I was speaking on behalf
15 of some universities.

16 At first the staffers all assumed that
17 universities would not care about whether they could get
18 injunctions to enforce valid patents. After all, aren't
19 they happy just to get a royalty and see their
20 technology used as by many players as possible? But in
21 fact they do care, and here's why.

22 If the universities cannot offer licensees, the
23 certainty of exclusivity over the life of the patent, the
24 licensee's business model collapses and their willingness
25 to commit substantial resources to developing early

1 stage, high risk inventions of universities into
2 commercial products will vanish.

3 So in a nutshell, based on decades of
4 experience, universities have found that not just strong
5 patents but strong patent remedies essential to
6 technology transfer and commercialization. Weak patent
7 remedies by contrast encourage litigation, rather than
8 licensing, and discourage private sector collaboration
9 with universities.

10 In my experience the same considerations apply
11 to small biotech companies. Small biotech companies,
12 indeed all but the top ten biotech companies in the
13 United States, account for two-thirds of the industry's
14 pipeline of new by logic. These companies are typically
15 private. They typically rely on venture capital
16 financing, and they're years away from FDA approval of a
17 commercial product.

18 So the promise of exclusive rights and validly
19 patented subject matter provides the investment incentive
20 needed to attract the massive amount of capital needed
21 to take a product through clinical trials and regulatory
22 review.

23 For investors in these companies, the business
24 model assumes enforceable patents for the full term of
25 the patent. Indeed, and picking up on Gary's comment,

1 it is often the last few years of the product's patent
2 exclusivity period when the innovator finally earns a
3 return on the investment.

4 To the extent that changes in the patent system
5 call into question the ability to enforce the right of
6 exclusivity through injunctive relief, venture
7 capitalists will take their funds elsewhere, and small
8 biotech companies will shrink and die rather than grow.

9 This means not only the loss of jobs but also
10 reduced competition in the marketplace because it's
11 their ability to enforce valid patents that permits
12 start ups to compete with mature industry leaders, so
13 patents in this context are very pro-competitive.

14 Finally and most tragically, the ultimate result

1 underscore a few words that Don said, that the
2 licensee's business model would collapse, and I would
3 like to raise my hand as one of the licensees because
4 the note that I wrote was no injunctions, no business
5 model.

6 I remember a few years ago when where we are
7 right now was a vacant piece of property. It was a
8 truly choice vacant piece of property, and on that piece
9 of property, someone made an investment over a couple of
10 years at great expense to build really this marvelous
11 facility that you folks occupy today.

12 They did that because they had security that
13 real property is real property. It is a property right.
14 You have an exclusionary right, and indeed once this
15 property had a secure title and once this building was
16 built on the title, the owner of that property got to
17 decide who lived in this property and who didn't.

18 I don't know when the last time most of you saw
19 Dr. Zhivago was, probably a long time ago, but there's a
20 scene in that movie where Dr. Zhivago comes home to find
21 that the Bolsheviks have taken over his house and put
22 more than a dozen families in that house because it was
23 a fair and just thing to do.

24 Now, there is no business model for building the
25 next house or the next marvelous building like this if

1 property rights aren't exclusionary rights. If you go
2 back and read the *eBay* decision itself, it recognized the
3 fact that the patent right has the attributes of
4 personal property, that the patent right was an
5 exclusionary right, and it is inconsistent to have an
6 exclusionary right where there's not the expectation,
7 the expectation of exclusion.

8 There are in my industry rare situations where
9 you would not expect to get an injunction. I remember
10 relatively early in my career advising a patent owner
11 not to seek an injunction after winning a case at trial.
12 I won't go in to the specifics. The Judge granted the
13 injunction, sort of. The Federal Circuit immediately
14 intervened and stayed the injunction.

15 That was a rare case. That was the one and only
16 case in 35 years of being a patent lawyer where I
17 believe that the property right shouldn't be an
18 exclusive right and shouldn't have resulted in an
19 injunction once the patent was found valid and infringed
20 at trial.

21 MS. MICHEL: Any comments on how the ability to
22 obtain an injunction or not, affects licensing
23 negotiations rather than the ability to maintain an
24 exclusive market position? Has anyone
25 experienced that?

1 MR. MASSARONI: I can address that for a moment.
2 In the context of the industry that Seagate finds itself
3 in -- which is admittedly different than some that the
4 gentlemen around the table have talked about already.
5 We're a \$12 billion company in a \$40 billion industry
6 that has been characterized by a long history of
7 consolidation. Easily, 15 years ago, there were over a
8 hundred companies in the industry, which have failed
9 during the course of those years, either for market
10 conditions or, frankly, because they had technological
11 solutions which weren't adequate to meet the needs of
12 the industry.

13 The result has been -- and I think this is what
14 Gary was talking about -- some of the unique factors in his
15 industry. Some of the unique factors in ours are that as
16 these companies have disappeared and fallen off of the
17 landscape as meaningful competitors due to economic or
18 technological reasons, often what happens is patents of
19 suspect value have become the only asset left in some of
20 these companies, and they end up being sold through

1 saying, Hey, I'm going to get an injunction against you,
2 therefore it's an extra 15 percent on whatever the
3 settlement value of this particular litigation is, it
4 becomes a discussion of, Well now you're going to spend
5 X additional million dollars in fighting the injunction
6 piece of this, and therefore there's an addition of X in
7 the negotiation for a license.

8 That has been that it has introduced into the
9 equation the opportunity to discuss a license without
10 the threat of being enjoined, but at the same time it's
11 not like it's eliminated the cost potentially associated

1 really no disincentive to really try to look at it as a
2 lottery ticket and come after a company and obviously
3 used injunction as a significant threat to skew the
4 negotiations.

1 are there more infringement threats also? Are you
2 litigating a higher percentage or litigating about the
3 same percentage?

4 MR. LUFTMAN: I think we are -- well, from the
5 litigation standpoint I would say at least for Palm, the
6 number of litigations we had was not because we shirked
7 our responsibility and people approached us and we just
8 ignored it. It actually is in most instances out of the
9 blue we're stuck into a multi defendant suit and brought
10 into a jurisdiction that's completely outside of
11 anything that we would expect to be pulled into based on
12 our product line.

13 Then with regard to -- with regard to the trends
14 around this, I think it's actually a double -- kind of a
15 two sides of the same coin. I think we discussed
16 yesterday damages and the predictability of damages is
17 one factor, and I think injunction was the other, and I
18 guess the encouraging thing is that there's at least a
19 little more clarity as to the criteria over the last two
20 years since eBay as to what needs to be satisfied in
21 order to get an injunction.

22 So that helps with at least the risk calculation
23 and the negotiations. Obviously damages I think is
24 somewhat of an open question which I think is
25 attributing to the added litigation, as well, which is

1 still viewed as a lottery ticket without really being
2 able to quantify what the risk is because the damages
3 awards are all over the map.

4 MS. MICHEL: Yeah, how's *eBay* changed the rule
5 for the others, Don, and any other comment you were
6 about to make?

7 MR. WARE: No. I was going to speak again from
8 the perspective of the university, and anticipating this
9 question, I did solicit the views of a number of tech
10 transfer offices: what has been the impact? what have
11 you seen coming out of *eBay*? Uniformly they all said
12 that it has had an adverse affect on licensing
13 negotiations because there is this -- they're in almost
14 a kind of worse position because they are not practicing
15 entities.

16 And so the potential licensees in some cases
17 have been making the argument that because you are a non-
18 practicing entity, you are not in competition with us,
19 you won't be able to get an injunction, so their feeling
20 is that the potential -- the entity that they think is
21 practicing their patent is more willing now to litigate
22 because they think there is not so much at risk in
23 litigating, because the university will have a harder
24 time getting an injunction.

25 So that's at least the report from the battle

1 lines of the tech transfer offices that I have talked
2 to.

3 MS. MICHEL: Okay. Bob?

4 MR. ARMITAGE: Yes. I just wanted to follow-up
5 briefly on Ken's comment. There's a commonly
6 acknowledged rule that the punishment should fit the
7 crime, and in my business, I think the analog to that
8 rule is that the treatment should best reflect the
9 diagnosis, and if, for example, you have a badly
10 infected right hand, you need treatment and if the
11 treatment is cutting off the right hand, you've
12 obviously cured the infection, but you also might
13 consider cleaning the wound and administering
14 antibiotics and actually curing the hand.

15 And I think the reality that Ken expresses, and
16 I truly believe it's a reality and I know that because
17 Justices Kennedy, Stevens, Souter and Breyer suggested
18 that same reality did exist. In *eBay* they noted
19 the burgeoning number of patents in certain areas of
20 technology. They acknowledged the potential vagueness
21 of those patents. They even acknowledged the fact that
22 there was what they referred to as suspect validity of
23 those patents.

24 Indeed in that environment, I think there is an
25 expectation to say that we can solve this problem of a

1 patent system gone awry by chopping off remedies, so if
2 damages basically are inconsequential and the threat of
3 being enjoined is uncertain, even remote, there's no
4 hand left to be infected.

5 I would submit, however, that if those are the
6 root causes, too many patents of too much vagueness and
7 too much suspect validity, then we have a patent system
8 that in other areas of technology has been marshaled to
9 address those issues. We have a requirement that claims
10 Of the patents, element by element, be reasonably
11 definite, be enabled and have a complete written

1 patents in the first instance.

2 MS. MICHEL: Kevin?

3 MR. RHODES: Yeah, first of all -- oh.

4 MS. MICHEL: Go ahead.

5 MR. RHODES: Just to comment on what Ken and
6 Doug said, we've seen the same thing. The licensing
7 dynamic is different now. Threats of an injunction by
8 non-practicing entities aren't credible anymore. What I
9 think that has led to, unfortunately though, is we
10 become entrenched more in assertion letters which
11 develop into an impasse in negotiations and more
12 litigation.

13 And I think that the -- people who talk about
14 asymmetries of bargaining power, and it's all a question
15 of perspective, but I do agree when you remove an
16 essential feature of the patent grant from the arsenal
17 of a certain class of patent owners, that shifts the
18 bargaining leverage, and I think it's -- there's not a
19 lot else they have to talk about if you're not going to
20 get the damages that they want or the injunction, and we
21 reach an impasse.

22 To follow on what Bob said, I think absolutely
23 we ought to be focusing on patent quality. I think that
24 can solve a host of problems we talked about yesterday
25 and we're talking about today, but let's not lose sight

1 of the fact about where in the process people begin
2 talking about the actual entry of a permanent
3 injunction.

4 The comment was made this morning that
5 injunctions might stifle innovation because the claims
6 are vague and we like to have people using patents to
7 come up with new products.

8 Well, let's be clear that injunctions only issue
9 after years of litigation, and the claims -- only after
10 the claims have been adjudicated not to be indefinite
11 that the *Markman* ruling issues that construe the claims,
12 the defendants have the opportunity to assert all of the
13 different defenses that are available to defendants.

14 The patent holder, we heard, has a 36 percent
15 chance of winning during this process. That's without,
16 mind you, the recent phenomena of the growth of
17 reexaminations where the parties seeking reexamination
18 has about a 90 percent chance or plus of having the
19 patent office look at the patent again.

20 So we're not talking about mere injunctions
21 based on claims that haven't been construed that might
22 be of vague scope. We're talking about the end of the
23 process, and we're talking about patents that have been
24 judged as infringed. We shouldn't be afraid
25 of calling them infringers because they've been

1 adjudicated by a jury of their peers to have infringed
2 an invention that is new, useful and non-obvious.

3 So, by saying you, infringer, don't get to
4 practice this invention, we're not taking anything away
5 from the public other than what the inventor has chosen
6 to disclose to the public in return for his limited
7 duration exclusivity.

8 So, I just want it to be clear that there's a
9 marked difference between the considerations that come
10 into play for preliminary injunctions which I fully
11 agree ought to be an extraordinary remedy and a
12 permanent injunction after trial and let's face it,
13 for the big cases, the injunctions are stayed pending
14 appeal. It happened in the Blackberry case. It
15 happened in the

1 that people seem to have bought into post eBay.

2 Before I do that, I just want to set a little
3 context of the industry that I'm in. I am the General
4 Counsel of Tessera. I'm here today actually to give my
5 personal view, not the views of the company, who are
6 involved in multiple litigations, and I don't want to be
7 deposed on what I say here and have it used against the
8 company.

9 I have for the last 15 years had the privilege
10 of working with many small high tech companies in
11 Silicon Valley, and I feel I can speak on behalf of many
12 of them. They don't have lobbyists typically. Everyone
13 knows the stories of the Apple and Google that rise to
14 the top, but underneath those companies, there's
15 hundreds of other companies with really smart people
16 working very hard to create things that have market
17 value, and I've worked with many of them, and some
18 succeed and some don't, and we're actually kind of used
19 to that. We believe in creative destruction and doing
20 your best, and if you don't succeed, pick up and try
21 again.

22 Tessera is a company that has two business

1 the brick [phone] that Gordon Gekko used in Wall Street
2 that is now something that fits in your pocket. It shrinks
3 things, and if this weren't an IP conference, I would
4 say we bring small things to life, but I won't say that.

5 That business was so successful that we could
6 not produce enough to meet the demand of our customers.
7 They asked us to turn over the IP and license it to them
8 so they could manufacture it around the world, which is
9 what is happening today, and it's a robust licensing
10 business, which is impacted by eBay, and I'll get to
11 that in a second.

12 The other business is imaging and optics, and
13 again miniaturization is our specialty, so we're

1 cannot manufacture on a par with foreign companies, and
2 we don't try to do that anymore, and I've noticed that
3 the United States is not the manufacturing colossal it
4 once was after the second world war.

5 We are an inventive colossal, and it's something
6 very dear to us in Silicon Valley to protect that edge
7 that we have over other countries because we think we're
8 smart, and if they're smarter, that's great, es blscan

1 photographic memory, learned how all these processes
2 worked. The Brits did not have an adequate system to
3 protect against what he next did, which was to build
4 textile manufacturing plants in the United States,
5 produce textiles and ship them back to England.

6 We're sort of the England of the 21st Century,
7 and if we don't have strong protection for our
8 intellectual property, we will be creating things that
9 people will come and look at, say, that's great, I'll go
10 manufacture it, ship it back to the U.S. market, the
11 United States market, and basically reduce the value of
12 what we have produced. So that was a long wind up,
13 sorry.

14 This morning the strong panelists -- it was a
15 terrific panel, this morning was a strong panel, but the
16 strong panelist talked a lot about patent hold-up, and
17 there's a flip side to that coin, which is infringer
18 hold-out.

19 In our business that has many semiconductor
20 manufacturers already licensing, they look at eBay and
21 my concern is -- again I certainly don't speak for them,
22 but my concern is that they see an opportunity to be
23 free riding on the rest of the industry, and the way it
24 works is this: It's a highly competitive industry,
25 semiconductor manufacturing. It's all driven by cost.

1 People will buy the least costly item that's of similar
2 quality.

3 I say that hypothetically because I don't want
4 to accuse any of my dear customers of wrongdoing, but
5 let's say there's ten providers and six of them are
6 licensees. I have a choice. They all come in and beat
7 me up and say, Why don't you go after the other four.
8 They're killing me in the marketplace because they can
9 sell for cheaper than I can sell. Everything else is
10 the same but I have to pay a royalty to you, and the
11 other four have, under eBay, very little incentive to come
12 to the bargaining table because if I sue them, it's a
13 five or six year process, frankly. It costs me millions
14 of dollars.

15 From their perspective they either succeed in
16 developing more market share, in which case it's not
17 such a bad deal, or they're going to go out of business
18 anyway, in which case they don't care. So one of the
19 problems I have with eBay, as it's being interpreted I
20 guess is the way to put it, is that it encourages
21 infringer hold-out, and that is an ongoing problem for
22 our business.

23 We don't know how serious a problem it is. It's
24 really too soon to say.

25 MS. MICHEL: Barney's raised a point about how

1 eBay is being interpreted. I wasn't sure if you meant
2 interpreted by the courts or interpreted by the parties
3 that you have to deal with, and in the sort of practical
4 real word effects of eBay, but I think that raises an
5 issue. For those who have concerns about the
6 availability of injunctions, is your concern located in
7 the way the courts are interpreting the decision or is
8 the concern about the uncertainty of what might happen
9 in the future, or is there just a really very real world
10 impact here from the uncertainty?

11 Kevin?

12 MR. RHODES: Yeah. I think the concern that we
13 would have is that the eBay factors boil down to rigid
14 tests that constrain the mechanisms we can use to
15 monetize our IP. So we may have an invention that's
16 ahead of its time.

17 Frankly I'm thinking of something as simple as a
18 Post-it note. When Art Fry invented it in 1976 he
19 couldn't give the things away. He had to give it away
20 first to the secretaries on the executive floor at 3M
21 and then make kind of road trips around to try to
22 generate interest in them, so there may be innovations
23 that we have chosen not to commercialize yet.

24 Someone else might jump in and infringe, and if
25 we are a practicing entity in another space that may be

1 competitive or may intend to commercialize that
2 invention down the road, we don't have the kind of
3 product life cycles that Gary and Bob talked about, but
4 there's a timing aspect to this, and to the extent eBay
5 is now transformed into, You must commercialize a
6 product that embodies a patent in suit and you must do
7 it now and you must be in competition, and that's why I
8 think those kind of rigid rules are thrown out in the
9 licensing negotiations as kind of rules of thumb to not
10 reach voluntarily settlements.
17 you sd Bob talked about, but

11 On this hold-out problem that Barney talked
12 about, I would suggest that after all that, after the
13 years of litigation, the millions of dollars, during all
14 of that time the defendant has a chance to win or to
15 settle or to design around. To say at that point we
16 have very large sunk costs, very high switching costs,
17 you ought not to enjoin us because this is a minor
18 feature of our product, it rings a little hollow.

19 We heard this morning that eBay could have
20 designed out the "Buy it Now" feature for \$10,000. Now,
21 come on. Does anybody really believe that? They took
22 this case all the way to the Supreme Court. I don't
23 believe that for a minute.

24 F 0.00 0.00 rg of thumb to not

1 are being wildly overvalued, I think that's a construct
2 of academic literature much more than it is of real
3 world dynamics.

4 MS. MICHEL: Okay. Doug, not to cut off your
5 comment -- please make your comment, but I will throw
6 out there also for you and anyone else who wants to
7 respond: Can the kind of problem that Kevin is talking
8 about, the way that eBay is being thrown out in
9 licensing negotiation about you must be commercializing
10 your patent, is that a problem that can be solved by
11 continuing to live with eBay and building up a body of
12 law?

13 Is it an inherent problem in not having
14 automatic injunctions? Will it take automatic
15 injunctions to make you happy with the system or is
16 there some other way? So, Doug, please, whatever
17 comment you were going to make.

18 MR. LUFTMAN: Sure. A couple comments based on
19 what I've been hearing. I think one thing that's
20 interesting is I don't think anyone here on the panel is
21 actually advocating no injunction. It seems like some
22 of the debate is actually talking about no injunction.

23 I think what we're really advocating is no
24 automatic injunction, and then with regard to the
25 criteria, ensuring that it's actually focusing on really

1 the goal that the Constitution said, to encourage the
2 progress of the useful arts.

3 So I think with regard to the equity analysis
4 going on, once you really go back to that fundamental
5 principle, whether it's a university or it's a
6 pharmaceutical or biotech, is it helping the progress of
7 the useful arts? I think in the high tech industry what
8 we're confronting is not something where NPEs are
9 approaching us and saying, We want to license you some
10 technology to improve your product.

11 Instead what we're confronting is a situation
12 of, Oh, we know you didn't know that this patent
13 existed, we know that we may have changed the claims a
14 year ago and gotten these allowed. We want a lot of money
15 from you even though it's a minor feature and you have
16 to pay us an enormous amount of money.

17 From the standpoint of the hold-out, that's an
18 interesting comment because I guess I don't see the lack
19 of an injunction at least motivating at least a company
20 like Palm to hold-out in negotiations.

21 I think it's actually a meeting of the minds as
22 to whether the compensation being asked is commensurate
23 with what we think the value is associated with it, and
24 I think it does go back to almost the damages question
25 rather than the injunction question, which is someone is

1 approaching us and saying you need to pay us a lot of
2 money, having a discussion where we actually talk about
3 metrics that help us get to that point of a meeting of
4 the minds.

5 Unfortunately what I think is going on today
6 with the increase in litigation is that there isn't this
7 meeting of minds and there just needs to be a solution
8 to that.

9 MS. MICHEL: Gary?

10 MR. LOEB: I guess I just want to come back a
11 little bit to the point that Bob made in part that by
12 changing the injunction standard and having the current
13 eBay standard that I think provides more outs for not
14 getting an injunction, you really are trying to fix a
15 problem that is more fixable by looking at the types of
16 patents that may be issued.

17 And sort of to use the same phrase I used
18 yesterday, it's the tail wagging the dog, and I think
19 what we've seen in the past ten years is that an
20 increased assertion of patents in industries that aren't
21 used to having patents asserted, so financial industries
22 or software where even when I was in law school, the
23 question was: Is software copyrightable or is it
24 patentable? And so it's hard to even go back to that
25 world, but it's not that long ago.

1 So I think that as these industries have to deal
2 or have had to deal more and more with patents being
3 asserted and many of them are having their first
4 intellectual property counsel in-house and all those
5 sort of things, they're going to create bodies of prior
6 art and be better equipped to invalidate obvious patents
7 and to -- and in the world of so much information being
8 online, being better able to find the types of
9 information that they need to invalidate patents that
10 maybe shouldn't have issued in the first place.

11 In the history of biotech and pharma where so
12 much of the relevant prior art is published journal
13 articles or things like that and as an industry where I
14 think we've relied on patents much more historically, I
15 think maybe we've been a little bit better equipped to
16 deal with the possibility of patent trolls and
17 invalidating sort of obvious patents.

18 So, I mean, I really feel like the way to deal
19 with the sort of fear that you're going to get held up
20 and enjoined is to look at what's being patented and
21 hopefully make sure that system is working well.

22 MR. ARMITAGE: You know, we have a Supreme Court
23 case on injunction, and there are other areas of the patent
24 law where we have recent Supreme Court jurisprudence,
25 for example, there was a decision, *Festo*, that dealt

1 with the doctrine of equivalents, and clearly the
2 Supreme Court reaffirmed the fact that we have, have had
3 and will have a doctrine of equivalents.

4 The problem is that in practice, after the
5 Supreme Court decision in *Festo*, what is settled out is,
6 in effect, no doctrine of equivalents. In other words,
7 you don't see it pled in jurisprudence. You don't see
8 it succeeding in jurisprudence, and it's been
9 effectively eliminated.

10 When I look at *eBay v. MercExchange*, I actually
11 have re-captioned this case Adverb versus Adjective plus
12 Noun because the Federal Circuit came so close to
13 getting the law right. It did say there's a general
14 rule that courts will issue permanent injunctions absent
15 exceptional circumstances. That's wrong, I believe.
16 What it should have said is -- what is true -- is generally
17 courts issue permanent injunctions against infringers
18 once infringement has been adjudicated.

19 When the Court said that lower courts in this
20 country should deny injunctions only in the unusual
21 case, exceptional circumstances, I think it's wrong.
22 It's not that they should deny it, it's in practice
23 that's what happens when you actually apply the
24 equitable rule, the equitable test.

25 So what I hope happens is what the Supreme Court

1 did contemplate in its opinion, and that is there
2 shouldn't be categorical rules that disadvantage
3 universities and others. If it comes out that way,
4 we'll be fine, but I believe that if the patent system
5 is to survive *eBay*, that the landing point within the
6 next several years is sort of the antithesis of the
7 *Festo* landing point, that is to say in *Festo*, that DOE,
8 functionally a dead letter, now is patent jurisprudence.

9 The landing point here really needs to be it
10 will be a very exceptional unusual case where a court
11 will force you to share your living room with a group of
12 Bolsheviks.

13 MS. MICHEL: I don't know that Doug thinks of
14 himself as a Bolshevik, but okay.

15 MR. ARMITAGE: That, by the way, was a Dr. Zhivago
16 analogy for those who joined us late.

17 MS. MICHEL: Then Bob, what do we hear, 69
18 percent injunction grant rate suggests 31 percent
19 denied? Does that strike you as high? Does that strike
20 you as more than just the exceptional case, and is that
21 the source of concern for any of you?

22 MR. ARMITAGE: No. I don't have a numerical
23 concern, and I have to admit, I haven't read each of the
24 cases. I did in preparation for today read a couple of
25 cases, and you know, frankly you can lose a case because

1 you don't know how to litigate the case. Kevin's a
2 litigator, so if you don't bother to put in proof of
3 irreparable harm, you aren't going to get an injunction,
4 okay?

5 If you don't put in the proof that as the patent
6 owner, you've been irreparably harmed, what you can't do
7 if basically you have an exclusive licensee, it occurs
8 to me there are many ways to do that, you probably won't
9 win the case.

10 So I honestly can't tell at this early point
11 whether what's happening here is we're seeing cases that

1 fairly decent body of law that's developing around this.

2 So to your concern about research institutions
3 and universities, there's the *Buffalo Technology* case.
4 There's the *Anascape Ltd.* case. It seems like
5 there's some reasonable law that's being built up around
6 this, so I'm a little concerned that simply saying we've
7 got Bolsheviks in the dining room and we're losing hands
8 because we don't have the automatic right to an
9 injunction is perhaps more -- worrying more about a
10 problem that may not exist in view of the fact that
11 there's some fairly decent case law developing in this
12 area.

13 And it's measuring and balancing as it should, the
14 factors that are applied to both parties in the context
15 of, admittedly, the infringers, that are existing at the
16 end of the day when we get to the remedy phase.

17 I would also agree with two or three of you all
18 who have made the point already, that the issue here is
19 the quality of the patents, and that's a problem we can
20 fix going forward, but the practical reality is we have,
21 what, 1.2, 1.5 million patents in the hopper already,
22 untold numbers of patents of very suspect quality in
23 your industry, in my industry, everyone's industry.

24 So this is a problem we do need to deal with
25 because we will be having it with us for the next 10,

1 15, 20 years, and looking at the balancing that district
2 courts appear to be doing post *eBay* I think is to your
3 point, Bob, coming to be the landing point on this. I
4 don't think they're going to overshoot the runway and
5 end up in the river where nobody's getting injunctions
6 at this point in time. But it is admittedly an ongoing
7 process.

8 MS. MICHEL: Doug?

9 MR. LUFTMAN: A couple points. I think Ken's
10 said it quite well, that the case law really has --
11 well, that the case law really has developed. In the
12 CSIRO case, the Buffalo wireless case, really suggested
13 that universities do have potentially some runway now
14 with regard to at least attempting to get an injunction.

15 But a couple of comments were made that I just
16 want to kind of at least elaborate on. One which I
17 thought was a little surprising is suggesting that the
18 high tech community is actually earlier on in the, shall
19 we say, development cycle than other industries, and I
20 think Ken is a perfect example.

21 My recollection of the hard drive industry, way
22 back when, when it was probably the most or one of the
23 most litigious industries in the world, I mean it was
24 unbelievable the amount of litigation going on and
25 ultimately they survived. And telecommunications -- I

1 think I saw Qualcomm in the audience as well. Perfect
2 example in the telecommunications space of all the holy
3 wars that have gone on over the years.

4 And so I think in the high tech community,
5 intellectual property is greatly valued, and the value
6 of injunctions and the value of damages is very well
7 matured in our industry. A couple of other kind of just
8 quick points.

9 With regard to injunction, the thing I was
10 surprised not to hear, for example, in Bob's industry,
11 they have a completely separate process for injunction, I
12 believe, with ANDA with regard to actually publishing the
13 patent and actually getting injunctive relief through an
14 entire separate mechanism.

15 So it seems as though at least in pharma there's
16 already a mechanism, and then with biologics being
17 proposed, it seems like it's similar to both, shall we
18 say, mechanisms that are being proposed as well.

19 So it seems as though injunction -- though
20 people are concerned about the uncertainty that's out
21 there, which I don't think is necessarily uncertainty
22 because I do think there's a good body of case law
23 developing, is potentially a red-herring because in the
24 end things are working.

25 Lastly, with regard to the patent quality issue,

1 again I absolutely agree with Ken on this, is that there
2 are a lot of patents out there that need to be resolved,
3 and I also don't think the current process really is
4 addressing them. I think RIM was mentioned before as an
5 example actually showing that injunction works.

6 In fact, I think it actually shows injunctions
7 don't work because more of the story that you don't hear
8 is that after RIM had the injunction stayed, it was then

1 compulsory license is the rare exception and not the
2 rule when we're talking about what is a property right
3 and a special property right of limited duration.

4 As I mentioned yesterday, the majority of our
5 business is outside the U.S., and we've litigated cases
6 all over the world, and we've seen what happens under
7 legal systems where there aren't effective remedies for
8 infringement and there aren't effective injunctions and
9 there's more of a fine type of system, and infringement
10 becomes endemic. It becomes a built in cost of doing
11 business.

12 It's cheaper to free ride on the innovator, pay
13 the fine and then do your own R&D. You remove the risk
14 of commercialization failure that way. You just copy
15 the successful product, and I think that's the risk
16 again if we water down the remedies for patent
17 infringement too far.

1 compulsory license systems outside the U.S., so I think
2 that's another concern.

3 MS. MICHEL: Okay. Gary?

4 MR. LOEB: I guess I just want to clarify the
5 record a little bit based on Doug's comments, that
6 there's already injunctive relief available through the
7 FDA process. I won't belabor this point, but all that
8 is available through the FDA process, which is currently
9 only available for small molecules and not for biologics,
10 is a certain amount, three to seven years of data,
11 exclusivity where another company can't rely on
12 your data in order to seek approval of their product
13 without doing their own clinical trials.

14 But to suggest that because pharma and biotech
15 have this data exclusivity procedure that our
16 patents -- that we shouldn't also be entitled to patents
17 that are entitled to their full force seems a little
18 misguided.

19 MS. MICHEL: Let's talk about how the analysis
20 is done and to see how courts might get to a good
21 landing place. With the first two factors, the
22 irreparable harm, the inadequacy of money damages, what
23 kinds of factors should courts be taking into account
24 there, especially to take into consideration the
25 special -- the different business models that you've

1 talked about, the innovative company that licenses out,
2 the university that deals with an invention that has a
3 long way to go to become a commercialized product?

4 Is there some way in the analysis to take these
5 points into account? Kevin?

6 MR. RHODES: Well, some of the things that I
7 talked about yesterday is that I've never heard a
8 business client at the end of a lawsuit, no matter how
9 successful his or her legal department was in delivering
10 the best possible results on let's say everything, a
11 permanent injunction, lost profits coupled with some
12 price erosion -- I know of one case where we got that,
13 and we still weren't happy. We still were not put in
14 the position as if the infringement had never occurred.

15 There are impacts on the marketplace that are -
16 just can't be compensated by a damages award or a
17 permanent injunction, and those are the kind of things
18 that we focus on with respect to the first two factors,
19 which, as we talked about this morning, really
20 essentially boil down to the same, are money damages
21 adequate.

22 So those are things like the reputation in the
23 industry as an innovator, customer relationships,
24 pricing structures, your product portfolio structure
25 those sort of things just can't be recreated. There's

1 often price erosion which you just cannot quantify.
2 There's a limited exclusivity period. If you're
3 bringing to market a new product or a new category, you
4 have a limited period in which your patent rights give
5 you the opportunity to develop the category defining
6 product and brand that can live on after the expiration
7 of the patent right.

8 And during this entire time you're enforcing
9 your patent and taking years and spending millions of
10 dollars, the patent term is ticking, and at the end of
11 that process, you've got some limited time limit, but
12 you're never in as good a position as if you had the
13 entire period of exclusivity to buildup that product or
14 that product category.

15 MS. MICHEL: So that sounds as if when the
16 patentee competes in the market --

17 MR. RHODES: That's right.

18 MS. MICHEL: -- there's a lot of avenues for
19 irreparable harm.

20 MR. RHODES: Yeah, those comments were when you
21 commercialized, if not the patent in suit, a competitive
22 space product.

23 MS. MICHEL: Okay. Barney?

24 MR. CASSIDY: I wanted to agree with most of
25 what Kevin said. Also just from my limited perspective

1 an observation, that I think the U.S. district courts
2 are not comfortable operating in equity. I think it's
3 unusual. People aren't trained in law schools as was
4 mentioned this morning. I think everyone needs to read
5 Douglas Laycock's book, and our federal judiciary needs
6 to be better equipped to deal with equitable issues.

7 And we'll just have to wait for, I think, five
8 years of cases and appellate court commentary on those
9 cases to resolve conflicts to get a better grasp of how
10 eBay is really going to be -- I don't think we have a
11 solid basis to know where the courts are going today to
12 apply the four factor test in eBay in these instances.
13 I know commercially that there seems to be this concept
14 that if you're not a competitor, you can't get an
15 injunction.

16 I don't think that's the law, but it does seem
17 to be a common sense view in a lot of businesses.

18 MS. MICHEL: Do you have any thoughts, Barney?
19 This morning we talked about the first two factors being
20 the factors that are the place where the court can think
21 about the patentee, and the second two factors, the
22 balance of hardships and the public interest being the
23 safety valve.

24 How might a court take into account your

1 the ability to control the licensing terms?

2 MR. CASSIDY: Well, Tessera has a couple
3 different business models. It has a fairly mature
4 business with a very well known royalty rate, and that's
5 a different set of problems. It's the hold-out
6 infringer problem. That's a different problem than the
7 nascent business and how to protect the rights of those
8 people.

9 So I don't have an answer to either of one of
10 those.

11 MS. MICHEL: Don?

12 MR. , (lf,lg6aus?)o0ytcon6a2thinke

1 of uncertainty.

2 MS. MICHEL: Bob?

3 MR. ARMITAGE: This issue I think for reasons
4 that Don said is more complicated than it seems at first
5 blush for everyone. I mean, the only simple case I can
6 think of is someone comes, takes your first born and
7 says, Your remedies for damages at law would be
8 adequate, in which case you would say, There's no price
9 I place on my first born, there's no amount of money
10 that's adequate, you should be enjoined from doing so,
11 and I can't imagine a court on the planet not saying,
12 You've met the irreparable harm standard, you get to
13 keep your child.

14 It's a little tougher when you look at Eli Lilly
15 & Company because we know that if someone offered -- and
16 I'm going to use a big number only because this is
17 bailout time -- a billion dollars for the whole
18 company -- I'm sorry, a trillion dollars for the whole
19 company, just checking to see if you're awake,
20 Suzanne -- a trillion dollars for the whole company,
21 that would probably be adequate for our shareholders and
22 all our other constituencies to decide that perhaps we
23 could part with our patents, perhaps we could, and the
24 entire company and all of our manufacturing facilities.

25 So in any economic situation, if there are --

1 there's a compensatory number at which you basically
2 have to say, Because this is an economic enterprise,
3 there is an absence, let's say, of irreparable harm but
4 I can tell you it's not the current market cap. It's
5 not the current market cap with a modest take over
6 premium, and in fact when you destroy an ongoing
7 business and employee,

1 probably the patents that were filed at the time that
2 the product was initiated.

3 So you're four years in. You're starting to
4 create your market in pancreatic cancer, and there's
5 some anecdotal evidence that maybe that same product is
6 useful in lung cancer, and so you are now thinking
7 about, do I start back in Phase I/II clinical trials to
8 figure out if I can get this product approved for lung
9 cancer?

10 And even when you already have an approved
11 product, you can be looking at \$200 million to \$700
12 million in clinical trial program just to get approval
13 for additional indications. If you don't have some
14 certainty with respect to the fact that you will have an

1 for a drug that maybe isn't being as fully developed
2 by the company that's frankly in the best position to
3 develop it because they know the most about that
4 product.

5 MS. MICHEL: Other thoughts on the irreparable
6 harm prong? Well, with that let's take a short break,
7 ten minutes, and come back and talk about the other
8 prongs. Thanks.

9 (Whereupon, a brief recess was taken.)

10 MS. MICHEL: All right. I think we're good to
11 go. We ended with talking about the irreparable harm
12 prong, which leads centrally to the balance of hardships
13 and the public interest prongs, and your thoughts about
14 that.

15 Let me throw it open just generally, thoughts on
16 the balance of hardships. Is this a place to address
17 the problems that Doug and Ken have with hold-up, or is
18 this a place that creates too much uncertainty for firms
19 that really depend on injunctions? Any thoughts about
20 that? We talked -- okay, Bob?

21 MR. ARMITAGE: We keep using this term hold-up.

22 MS. MICHEL: Yeah.

23 MR. ARMITAGE: I look at this as an undefined
24 term. At least it's not a term the first 30 or so years
25 I practiced patent law I ever heard, and I decided to

1 produce the product, not infrequently the product of a
2 contorted history of continuations such that the subject
3 matter now claimed in whatever ambiguous form exists
4 bears no close comparison to the originalness of the
5 claims.

6 I understand the legitimate patentee seeking to
7 enforce his or her rights, so I would put a finer point
8 on it that makes it look more like the former as opposed
9 to the latter definition.

10 MS. MICHEL: Those are important
11 characterizations from your experiences. Could there be
12 a more pure definition of hold-up that can be grounded
13 just in the economics, that's not to make any decisions
14 about whether or not injunctions should or should not be
15 granted, but this morning, we were talking about hold-up
16 in a sense I think from a purely economic perspective,
17 and then bringing in other issues?

18 MR. MASSARONI: Certainly in the context of this
19 morning's discussion, it was in the context of after
20 substantial investment in plant and equipment had been
21 made, and generally looking at patents or patent claims
22 that were relatively minor improvements on relatively
23 small components of the overall product, and that
24 certainly is a fair definition, though again from my
25 perspective, and I only speak only for my own here, the

1 additional qualifiers I offered I think are generally
2 what we see in the tech industry.

3 MS. MICHEL: Kevin?

4 MR. RHODES: Well, again I view this question of
5 hold-up, however you define it, from kind of a practical
6 perspective in that yes, you define it economically, but
7 what we're talking about with the eBay factors are
8 equitable factors, not purely economic factors.

9 So, yes, there's obviously a relationship.
10 We're now talking about the third factor, what is the
11 harm to the infringer, and that's typically measured in
12 economic terms, but to the extent we make that purely an
13 economic factor and just try to quantify the harm
14 without it being a true balance and really the scale
15 tipped in favor of the patentee due to the nature of
16 the right, I think that we're losing sight of the equity
17 here.

18 The timing aspect is critical in my thinking in
19 that regard, and that is again we're not talking about
20 the *ex ante* negotiation at the time the switching costs
21 are incurred. We're now talking about years down the
22 road. Millions of dollars into the litigation, the
23 infringer has had a chance to win, to settle or to
24 switch.

25 I don't think it's accurate to say at that point

1 in time we really have these minor aspects of the
2 accused product that are driving these enormous sunk
3 costs that cost a lot to switch out of.

4 So maybe there are qualifiers on that last
5 statement, maybe if we're talking about a standards
6 setting context or that sort of thing, but I think for
7 the garden variety case, by that time, when you're
8 talking about it from the perspective of equity, it
9 ought to be in favor of the patent holder and against the
10 adjudicated infringer.

11 MS. MICHEL: I'll let Doug respond and then go
12 to Don.

13 MR. LUFTMAN: Sure. I actually agree with Kevin
14 that where I lean towards it is in the standards context
15 where you have no choice of switching out the
16 technology, and there's just no choice in the matter or
17 maybe a fundamental technology where again back to the
18 dubious patent aspect is someone has crafted claims way
19 down the road. Just from an equity standpoint it just
20 does not seem to be appropriate, but I do agree that it
21 seems to be that standard, at least where when I heard
22 this it kind of resonated more.

23 MS. MICHEL: So I'll come back to the broader
24 question, but since you raised the issue of standards
25 here, should a patentee who has made a RAND commitment, a

1 already agreed that from a royalty standpoint, they're
2 willing to take money versus stopping someone from
3 shipping, and because they've already affirmatively put
4 this technology into a standard where you have no choice
5 as to taking it out of the -- moving away from that
6 standard. I think back to the hold-up concept, you
7 really have no choice, and from an equitable standpoint,
8 an injunction would be very, very difficult to get or
9 should be very difficult to get.

10 MS. MICHEL: Thank you. All right. Then going
11 back to the broader question of looking at balance of
12 hardships, Don, did you have a comment?

13 MR. WARE: I was going to say that I think it's
14 important that we not look at the question of balance of
15 hardships purely in the abstract because I think you
16 always have to consider it in the context of the scope
17 and the timing of the injunction, and that one of the
18 creative roles for litigation counsel, if you're
19 representing the defendant -- well, really if you're
20 representing the plaintiff too because you want to get
21 the injunction, is to help the court craft an injunction
22 that minimizes the hardships.

23 So, for example, one of the things we've heard a
24 lot about from the IT industry is the concern about
25 small components or small improvements that

1 are part of a very complex system, and if we're talking
2 about Windows and a particular feature in Windows or
3 something like that, so certainly one can say there
4 would be significant hardship if you're taking an entire
5 product off of the market.

6 But of course, Section 283 is focused on the
7 actual infringement, the infringing feature. It doesn't
8 give courts the authority to do anything other than
9 enjoin future infringement, and so it seems to me that
10 one way to deal with a hardship problem should always be
11 to be thinking about things like sunset provisions. Do
12 you give the opportunity to the defendant to replace
13 that feature?

1 replace it. Well, maybe that says that the real value
2 in that product is indeed the infringing feature.

3 But I think that balance of hardship should
4 always be considered in light of how we can narrowly
5 craft the injunction, so it does no more than enjoin
6 infringement and how you can use equitable principles
7 through when the injunction takes effect, how long it --
8 how long it continues, what amount of time is given to
9 design around using non-infringing alternatives.

10 So I think that that's how you should be
11 thinking about balance of hardships.

12 MS. MICHEL: The public interest factor, what's
13 important for a court to think about here? Don, I know
14 you have a lot of thoughts on that.

15 MR. WARE: Well, I think ~~there are some things~~ a
16 court should think about, and there are some things a
17 court absolutely not think about, so let me distinguish
18 the two. I'll use -- as an example, there have been
19 comments earlier today about the *Amgen v. Roche*
20 case, and that was a case in which there were

1 features that allowed for better dosing, but they made a
2 separate argument, which was that the introduction of
3 their product would introduce price competition into the
4 market, would result in significant savings to the
5 public through Medicare because of the asserted price
6 competition advantages of bringing their product into
7 the market.

8 So let me address first the price competition
9 issue and then come back to the public health issue.

1 They can only determine adjudicative facts and
2 they're based on the quality of advocacy before them,
3 and they can -- different judges could produce
4 inconsistent results that would then be reviewed by the

1 concerns with respect to uncertainty.

2 In other words, the courts have worked through
3 as we saw in -- as we saw this morning, the courts have
4 worked through and how they will decide these cases and
5 maybe they provided some certainty, but public -- or
6 public interest could be a huge, huge wild card and
7 that's where if the issue of is the public served or not
8 by having a competitive market versus exclusive rights
9 in a market -- if that's opened up in every case, then
10 we really do have a problem. I think we do have a
11 problem in terms of investment, long-term investment,
12 the uncertainty of investment.

13 So now, I mean --

14 MS. MICHEL: Certainly a number of courts have,
15 when analyzing the patent infringement prong and doing
16 it rather summarily, have said, Well, the public has an
17 interest in the strong patents system, that incentivizes
18 innovation and stops the analysis there.

19 Does that give you any comfort?

20 MR. WARE: Well, the Federal Circuit in the
21 *Paice* case upheld in effect the imposition of a
22 compulsory royalty, and so I think by and large -- and
23 indeed Judge Young's decision itself will contribute in
24 a positive way in the end to this, but I think that to
25 the extent that he opened the door and suggested that

1 this is -- that the decision was made just on the basis
2 of the facts in that case, then that is a concern. So
3 price competition, that's to me a big wild card on the
4 public interest prong -- that is of real concern.

5 Now, what courts should consider I think is
6 public health. I think that's entirely appropriate to
7 consider public health, and there have been a number of
8 cases in which courts have done that, and I think

1 that would protect the public health without simply
2 saying that because there's a public health issue, you
3 won't get an injunction.

4 So I think that's a fine thing for courts to do,
5 and so that's why I don't think any of us really at this
6 table are saying that injunctions should be absolutely
7 automatic. There should be no discretion. There are

1 someone able to come in, offer us a 22 percent royalty
2 and compete in the market with us, are you still
3 interested in taking these risks and making these
4 investments? And the answer, of course, would be no.

5 To me the public health interest in really
6 remarkable advances in medical technology like that is
7 really at the core for better or for worse of the need
8 for a patent system that delivers empirical studies and
9 secure empirical studies in the marketplace.

10 MS. MICHEL: Before we move on any further
11 thoughts on balance of hardships, patent infringement,
12 the safety valve, the weighing of the equities here, and
13 in particular, we haven't talked too much in the past
14 few minutes at least about the role of the inadvertent
15 infringer rather than the intentional copyist, who is
16 infringing on one patent that is a small piece of a
17 bigger product and that there is competition in the
18 marketplace for the bigger products?

19 Do we consider in the balance of hardships the
20 inadvertence of the infringement? Should we consider in
21 the patent infringement the competition in the bigger
22 product?

23 Bob?

24 MR. ARMITAGE: I am a big complicated thing, and
25 my left foot has a little toe that's a relatively small

1 part of that, and the left ventricle in my heart has a
2 little valve that is a relatively small part of that,
3 and just because each of those things is a small part of
4 a bigger, more complex organism doesn't tell me anything
5 about their value to the organism, their essentiality to
6 the organism, and whether it's easy or hard to live
7 without them or to live with them configured slightly

1 responsibility is to look at the patent literature,
2 analyze what our competitors are doing before we get
3 into development on a product, make certain that we can
4 expect to find alternatives to patented technology or
5 secure rights to patented technology or sometimes we
6 even find ways to forge partnerships because people have
7 patents, universities, for example, any number of
8 relationships that have been created there.

9 So if the issue is that sometimes our process of
10 avoiding being an inadvertent infringer is imperfect,
11 yes, it is. There may be a slight issue there, but you
12 know, I see the patent system as working best where you
13 don't try to sit down and figure out whether they're
14 good infringers or bad infringers, and there are ways
15 frankly, particularly with publication of pending
16 application, all the modern search tools, *et cetera*, to
17 basically avoid being infringers.

18 MS. MICHEL: Doug?

19 MR. LUFTMAN: I think Bob makes an interesting
20 point which I think shows a difference in the two
21 industries and I would be interested in maybe posing a
22 question maybe back to Bob.

23 In the pharmaceutical industry, my understanding
24 is there's probably maybe about a hundred patents
25 that cover a pharmaceutical product, and again this is

1 just what I've heard, and I would love to hear at least
2 where my understanding is correct.

3 In the high technology industry, I believe Mark
4 Lemley's done some studies with some tech companies with
5 regard to how many patents are applicable to one
6 specific product, let's just even say a chip, and it
7 was 10,000.

8 Bob, how would you actually recommend, if you
9 have three or four people on your staff to evaluate
10 a hundred patents -- how do you staff up for tens if not
11 hundreds of thousands of patents if you're in the high
12 tech industry?

13 MS. MICHEL: Oh, yes, please.

14 MR. ARMITAGE: First of all, you give us far too
15 much credit. If you look in last year's 10-K where we
16 list all the key patents on our products, you will see
17 they're all listed in a paragraph that's about this
18 long. It's bullets, actually bullet points. You won't
19 see a hundred patents listed. You won't see 20 patents
20 listed. You will probably see a dozen or so patents
21 that are listed, and for many of our products, even
22 multi billion dollar products, you will see a patent
23 listed, sometimes two patents listed. So the difference
24 isn't a hundred to a thousand or 10,000. It's more like
25 one to a thousand or 10,000.

1 So I ask myself: Why are there so many patents
2 in some areas of technology relative to other areas of
3 technology and the answer for us is we vigorously seek
4 patents to protect what we have, and we're also vigilant
5 about what we see in a competitive patent landscape, so
6 that we oppose patents globally that we think are too
7 broad or shouldn't have issued, and we spend significant
8 resources doing that.

9 Where we see the law on patenting, developing,
10 in a way that patentability standards we don't believe
11 are being rigorously applied, we engage in amicus
12 efforts, and we engage in academic effort, publishing
13 law review articles and the like to argue for a patent
14 law that in a fair and rigorous way applies all the

1 thousands of patents a year and getting patents
2 basically for reasons that when you see them in
3 adversaries, you don't believe they should have issued.
4 You call them patents of dubious validity or dubious
5 significance.

6 Basically the patent system can't work both
7 ways. It can't work in a way where you take one
8 philosophy for procuring literally thousands to tens of
9 thousand of patents, and another philosophy that says,
10 Well, gee, these are the various -- these are the
11 various things that don't deserve respect because
12 they're too vague, because they're too abstract or
13 because they're otherwise of questionable or dubious
14 validity.

15 MS. MICHEL: Yeah, let's let Doug respond.

16 MR. LUFTMAN: So what I think I am hearing --
17 and thank you for that insight. It's really
18 appreciative.

19 So with regard to only three patents being
20 fundamental to your product, and let's give you a ten
21 factor to other potential dubious patents out there,
22 then the pharmaceutical that you've been able to staff
23 up to challenge, and write articles and amici, you're still
24 talking about potentially 33 patents in your space that
25 are applicable to your product.

1 We still have the problem, and I don't think
2 it's because we're filing on things that we shouldn't be
3 filing on. It's because of digital convergence, the
4 complexity of the products we're dealing with, and there
5 is no one to one correspondence between the patents and
6 the products.

7 Our products are so hyper technical and complex

1 facing, is that the staffing that we're talking about
2 just to deal with the problem in the high tech industry
3 is not practical to go the route that the pharmaceutical
4 industry has the luxury of pursuing the high tech --
5 margins in the high tech industry generally aren't as
6 high as in the pharmaceutical and biotech industry. Go
7 ahead.

8 MR. ARMITAGE: The solution is not to cut off
9 the hand. It's to cure the infection and to have
10 appropriate therapy. You know, this debacle, and I
11 think having tens of thousands of patents of
12 questionable validity that you don't know how to deal
13 with and you can't effectively litigate all ten thousand
14 has the potential to be a debacle.

15 We face nearly the same thing in the biotech
16 industry with little snippets of DNA seemingly to be
17 patentable, which would have opened a floodgate that
18 probably equal tens of thousand of patents.

19 The result was that the PTO fortunately didn't
20 issue those patents by the thousands, and by the time
21 the law developed, it's clear that you can get strong
22 patent protection on genetic inventions. There's no
23 doubt about it. You can in the biotechnology field
24 today get patents to protect diagnostic methods and
25 innovative pharmaceutical products, but you can't get

1 patents on things where you haven't clearly defined the
2 invention, where you haven't enabled the invention as
3 broadly as you try to claim.

4 All of that arises from the ability to get
5 clarity in the law, all the way to the Federal Circuit.
6 It is essential that that happened on subject matter
7 eligibility. It's just starting to happen now decades
8 after software patents first come into being.

9 I would equally argue that definiteness for
10 these types of patents and adequacy of written
11 descriptions for these types of patents, after all these
12 decades remains under development. That isn't a reason,
13 however, to say the quick and easy solution to this
14 problem is eviscerating remedies.

15 It is true, if patents don't have damages that
16 amount to anything and injunctions can't be obtained
17 with any security or certainty, you have solved the
18 problems of a deep sea of patents but at the expense of
19 the patent system.

20 MR. LUFTMAN: Just real quickly.

21 MS. MICHEL: Yes.

22 MR. LUFTMAN: I promise I'll make it quick.
23 Just a couple clarifications. Regarding the tens of
24 thousand, I didn't want to suggest that there are tens
25 of thousand of dubious patents. My point was that the

1 luxury I think that the pharmaceutical industry has is
2 you just have to wade through 30 or so patents to find
3 the ones that are -- the problematic ones.

4 What we have to do in the high tech industry is
5 to go through tens if not hundreds of thousands of
6 potentially dubious patents or tens of hundreds of
7 thousands patents to find those few that are actually
8 going to be the problematic ones.

9 With regard to the remedies, I'm not suggesting
10 that the way to resolve all of this is to deal with
11 remedies and eviscerate it. Instead, what I think I've
12 been saying all along is to really intend to make it
13 predictable and transparent and actually that there be a
14 methodology behind it rather than it being automatic.
15 If the results are the same, I don't think I have an
16 issue with it.

17 If the result is different because the equities
18 do not justify actually issuing an injunction, I think
19 it's appropriate to have that as the remedy of just
20 going just to damages.

21 MS. MICHEL: Kevin?

22 MR. RHODES: Yeah. First we're talking about
23 trying to work up a patent system that functions for
24 everyone, all industries so the idea that there are
25 challenges in certain industries and we ought to move to

1 the lowest common denominator by -- I don't know if it's
2 eviscerating but certainly everything that we've been
3 taking about for the last two days of lowering of
4 remedies I think is the wrong approach because we
5 shouldn't be listening to -- concerning one area and not
6 taking into account the effects in other industries.

7 I think it's also important to define what we're
8 talking about by inadvertent infringement. I understand
9 what it is in the *ex ante* when you're launching a
10 product, and we do a lot of clearance searches. I agree
11 with Bob that tools are better than they've ever been.

12 The 18 month publication has certainly helped as
13 well, so you can see what's working its way through the
14 Patent Office, but there are times where you miss, and
15 that's a challenge, and that can lead to a challenge
16 down the road. But the question we're talking about here
17 is should inadvertent infringement be a factor in favor
18 of the infringer in the context of a permanent
19 injunctions, so when does that happen?

20 Well, we've gone through the district court
21 proceedings. We've got the *Markman* construction. We
22 know what the claims mean. Presumably it didn't go well
23 for us because we're later found to be an infringer.
24 We've got the district court judgment. We've had our
25 crack at JMOL after the verdict has come in. Presumably

1 if it's an important enough product, the injunction has
2 been stayed on appeal so the Federal Circuit has also
3 told us that we're infringing.

4 So it strains credibility a little bit to say
5 the infringement is still inadvertent after all that
6 history is under our belt. So in my mind, how should
7 remedies look at there question of inadvertence? I
8 certainly understand why there ought to be enhanced
9 damages for willfulness.

10 We ought to deter willful infringement, so there
11 ought to be a punitive aspect both in terms of
12 injunctions being easier to get, damages being enhanced.
13 I don't think the nature of the property right means
14 that trespass ought to be subject to a lesser remedy
15 when it is inadvertent and think about the policy we
16 would be creating there. I mean, we would be
17 encouraging firms not to read patents so they can try to
18 avail themselves of the inadvertent defense.

19 MS. MICHEL: Don?

20 MR. WARE: It seems to me that we shouldn't sort
21 of fall into the trap of seeing this as an industry by
22 industry issue, because it seems to me that whether
23 you're in, biotech, pharma, IT, whatever, there are
24 going to be very large investments that you make in a
25 product that are at risk, where it is, where the prudent

1 to investigate whether we have freedom to operate in
2 areas that are critical to our business.

3 MS. MICHEL: Doug?

4 MR. LUFTMAN: Just real quick. With regard to
5 the point that you just made about searching in the key
6 technology, I think the challenge that we're facing in
7 our industry is that I think the perfect example is the
8 *E-Pass* case, *E-Pass v. 3Com*, and our General Counsel
9 actually testified before the Senate Judiciary Committee
10 on this very topic.

11 E-Pass actually argued that our smart phone was
12 a card. Who would have ever thought looking at this
13 claim that our product would be interpreted as a card?
14 Later, I think it was twice to the Federal Circuit, we
15 finally were vindicated that our smart phone, believe it
16 or not, was not a card.

17 So the problem is -- it's not the situation
18 where it is clear that someone has a patent that covers
19 their product. It's all of these other instances, and
20 again I mentioned the 15 litigations currently going on,
21 we would never have found these patents of the 14 or 15
22 that are patent licensing entities because what
23 ultimately happens is the patents are re-crafted later
24 on in the life cycle, and they either cover us then, or
25 even if they can't cover you because they've won 12

1 issues, they still get it vague enough that we're
2 actually then sucked into it so that's the challenge
3 that we're facing.

4 MR. WARE: Could I just ask ultimately when you
5 prevailed in that case, was it a non-infringement
6 defense or was it a 112 defense that they hadn't
7 described the invention as they were now asserting it
8 should be?

9 MR. LUFTMAN: I believe it was a non-
10 infringement, and I believe what's it was ironic in all
11 of this is that we then got the extraordinary damages
12 award against E-Pass. Of course they have no money and
13 I believe it's still up on appeal, but that's ultimately
14 the challenge in the end is \$5 million down the drain
15 for something that we would never have found doing any
16 type of searching.

17 MS. MICHEL: Let's talk about what to do if the
18 injunction is denied and we have ongoing royalties.
19 This raises two issues: How to fashion the ongoing
20 royalties but also how to fashion the injunction, tailor
21 it in a narrow way? Let's start with that.

22 When is it appropriate to tailor the injunction
23 rather than have the injunction -- I'm sorry, rather
24 than continuing the infringement through the whole life
25 of the patent? What can we do in terms of sunset

1 provisions, allowing time for design around? Does it
2 make sense to do that? Are you less concerned when
3 courts just give the infringer some time to design
4 around?

5 Don, you raised this point before.

6 MR. WARE: Right. Well, I mean, I do think
7 that's an area for equitable discretion. I think
8 crafting the injunction so that it's really tailored to
9 the infringement -- I think the sort of horror stories
10 that we all have heard about in the context of things
11 like Windows or what have you is somebody seeking an
12 injunction against the entire product, and the courts
13 are supposed to enjoin infringement.

14 And so I do think that there is room there
15 without really hurting the patent system, without
16 hurting other industries to use -- to give time where
17 appropriate. I mean, I think it's a case by case basis.
18 If the litigation has gone on for a long time, and it's
19 been clear for a long time that the product is
20 infringing and that the invalidity defense is weak or
21 whatever, I think you're going to give somebody a
22 shorter period of time, how much notice did they have.

23 So it's really, I think, an individual case by
24 case basis, but I think that is certainly an area
25 that's very appropriate for the courts to exercise

1 discretion.

2 MS. MICHEL: Okay. Kevin?

3 MR. RHODES: Yeah, I agree entirely with Don on
4 the question of narrowly tailoring injunctions to
5 correspond with the extent of the infringement. On the
6 question of sunset provisions, I think they're useful as
7 a product of a voluntarily settlement negotiation. In
8 fact many of our settlement agreements do include
9 sunset provisions to allow the other party a safe exit
10 or a safe period to redesign without too much disruption
11 to the business.

12 I'm skeptical of courts being in the best
13 position to fashion those kind of remedies, and I'm
14 particularly skeptical at the end of a long, hard
15 litigation where the other side wasn't willing to
16 negotiate a settlement. Our patent term has been
17 running all of that time, and now all of a sudden they
18 need additional time to design around. I don't think
19 the principles of equity would favor that.

20 With respect to the amount of the royalty, if a
21 compulsory royalty is entered by the court, wpropo9e 141.00000 0.

1 royalty rate for a couple of different reasons.

2 One is the royalty rate negotiation takes place
3 just prior to the time the infringement begins, so there
4 is a risk on the commercialization side about how
5 successful the product is going to be.

6 By the time, the royalty is to be set -- after
7 the case is over -- the commercialization risk is gone.
8 The product has been out in the marketplace. The
9 infringer has commercialized its product, and let's face
10 it, these cases are not being litigated over products
11 that were flops in the marketplace much. These are
12 successful products. The infringer has removed the risk
13 of commercialization. A royalty at that point would be
14 for a higher amount than at the uncertain period before
15 the product is being lodged.

16 The second thing, and I know the reasonable
17 royalty negotiation presumes not only a willing licensor
18 or licensee, but also the patents presumed valid and
19 infringed. But in my mind, practically speaking, there's
20 something different from an assumption that the patent
21 is valid and infringed and a battle-tested patent
22 that's gone all the way through litigation, the
23 defendant has spent years and millions of dollars
24 throwing up every defense and searched the world for
25 prior art. That patent has greater value in my mind

1 because it's been through the war and it's worth more at

1 then the patent holder ought to be allowed to sue them
2 again and sue them for willful infringement, but if
3 they're going to ask the court to in effect bless them
4 being in the market in the face of a patent that's been
5 held valid and infringed, it doesn't seem to me that
6 they need -- that they should be -- that they should
7 expect to enjoy the same profit level, for example.

8 If we look at the *Georgia-Pacific* factors, if
9 you're looking at a hypothetical license negotiation,
10 they're supposed to be getting a reasonable profit and
11 all of that, but I think that that -- that if it's not
12 compensatory damages we're dealing with, it's a court
13 ordered sort of injunctive relief that's permitting them
14 to stay on the market, there's no particular reason why
15 they should be also profiting in the same way, and
16 therefore I think they should be prepared to pay more
17 for that opportunity.

18 MS. MICHEL: Any other thoughts how to handle
19 the situation in which the injunction has been denied
20 and we have ongoing royalties, also known as a
21 compulsory license to some?

22 The last issue, Chris Sprigman spoke this
23 morning about the ITC, the law of unintended
24 consequences, and the fact that the potential denial of
25 an injunction under *eBay*, he thought could be driving

1 more cases into the ITC and raised the issue of whether
2 that should be considered or addressed.

3 Any thoughts on that, Doug?

4 MR. LUFTMAN: Actually just one quick one. I
5 think this is actually very timely because the first non
6 practicing entity is attempting to do just that, is to
7 circumvent eBay by going to the ITC. It's the *Saxon*
8 case, so it will be interesting to see if the ITC kind
9 of sees this coming and is able to address it, but
10 that's at least the first that I'm aware of that this is
11 developing, so, yes it's potentially a problem in the
12 making.

13 MS. MICHEL: Kevin?

14 MR. RHODES: Yeah. I do think that eBay is one
15 reason for the growth in the ITC's docket. I think the
16 other is just the speed to a final determination in the
17 ITC, and I do -- these are different remedies with
18 different proceedings, so I don't think it's entirely
19 accurate as it was said this morning that a district --
20 parallel district court proceeding along with the ITC
21 proceeding has two shots at the injunction.

22 Obviously you don't get damages in the ITC. You
23 just get the exclusion order, so these are filed for
24 that purpose as well as the fact that you avoid getting
25 DJed then if you have your ITC proceeding, and let's not

1 forget, the district court proceedings by statute are
2 almost always stayed.

3 So it's not a question that you've got two
4 parallel proceedings where you're double dipping, and I
5 would suggest I have no data to back this up, but I
6 would suggest that the cases where there really is a
7 full adjudication in both for are relatively rare.

8 So I don't really see it as a major problem as
9 was described this morning. I think with the different
10 remedies and different standards that apply, if there's

1 the research on this, but then go to the district court
2 and say, Hey I got my order over here, so in effect you
3 ought to just give me the injunction already because
4 I've got the similar remedy that I am asking here from
5 the ITC.

6 So again, I'm not sure that that's come to pass,
7 but at a certain level it seems like a fairly easy
8 argument that a patentee might make.

1 are different settings for different purposes.

2 MR. RHODES: Again I don't see that as
3 necessarily a problem. I think these are different
4 settings for different purposes.

5 MR. CASSIDY: And I disagree that these -- with
6 the characterization that it's a circumvention of *eBay*
7 to go to the ITC. I think it's a completely different
8 forum. It was not addressed in *eBay* at all.

9 I should note too that the ITC itself with the
10 help of the Federal Circuit narrowed the remedies
11 that it provides in the *Kyocera* case and then in the
12 recent case, known by either the GPS case or *SIRF*,
13 *S I R F*, they have embraced *Kyocera* to say they would
14 not issue downstream limited exclusion orders, which
15 significantly changes the practice that Congress has
16 been aware of and sort of validated over the years, so
17 that was a surprise to many practitioners.

18 We have three cases in the ITC right now, so I
19 can assure you, Ken, these are not -- you can't walk
20 across the street to district court and --

21 MR. MASSARONI: Agreed. But, the wind behind
22 your back, makes the argument at least more appealing to
23 a district court judge.

24 MR. CASSIDY: I agree with that, but there is no
25 collateral estoppel.

1 between the ITC rule, whatever that means, and what
2 district courts do is not of practical significance to
3 anyone but those whose towers are tall and ivory.

4 MS. MICHEL: We're wrapping up so -- oh,
5 willfulness I'm sorry. Thank you. I have to turn the
6 page. All right. We'll spend a few minutes on
7 willfulness or whatever it takes. We did want to talk
8 about that because that's all a very important remedy
9 issue.

10 And, Ken is here, so -- but thank you for that.
11 What has been the effect of the Federal Circuit decision
12 in *Seagate* on behavior? We had heard prior to *Seagate*
13 that in some industries, engineers were not reading
14 patents for fear of willful infringement. We had heard
15 complaints from I think across industries that the money
16 spent on opinion letters after refusing, here's my
17 patent letter in the mail and that that was not felt to
18 be a good use of funds.

19 Has *Seagate* alleviated any of those problems?
20 Doug?

1 aftermath of the case.

2 Does it make it more likely that engineers would read
3 patents? I would hope so because now they can go to their
4 inside attorneys and say, Hey, I found this patent,
5 what does this mean and -- as opposed to saying,
6 oh, my God, who told you to do that, why did you go read
7 this? I hope it's made things better, but it has not been
8 the panacea that some folks I've read have painted
9 it as being. There are still things to do, I think, that
10 can improve the law around willfulness, make it, for
11 instance, something that's amenable to an early
12 determination in the trial. I think that would help a
13 lot.

14 MS. MICHEL: Summary judgment, is that what
15 you're referring to?

16 MR. MASSARONI: Potentially a summary judgment,
17 or if you want to go on the other direction of this,
18 let's not adduce testimony and discovery on this until
19 after there's been a finding of infringement in the
20 first instance. Or, alternatively, you can look at things
21 like requiring the patentee to plead it with
22 specificity, or make a very early demand letter that in
23 chapter and verse sets out your product and how it
24 infringes and why it infringes.

25 There's a host of different things that one

1 On the litigation tactic, I think I would like
2 to see more summary determinations, summary judgments on
3 willfulness. I think we will see that. I think it's
4 too soon to know the full impact of your case, but I
5 think that hopefully we will see more of that.

6 The problem with delaying it until a finding of
7 liability is simply timing and mechanics, who is going
8 to hear the evidence, who is going to make the
9 determination and getting a panel, a whole new jury to
10 do that.

11 I think a middle ground, the District of
12 Minnesota in their model scheduling orders, and I
13 believe the Northern District of California, defers at
14 least the most incendiary discovery, if you will, the

1 liability issue, at least to get it on the issue, look,
2 Your Honor, this is a close enough case, it certainly is
3 not objectively reckless, and that allegation not to
4 continue to be part of this case so that's a potential
5 solution.

6 MR. MASSARONI: And I would agree that that
7 would make the most sense. The presentation Rob McKelvie
8 did shortly before the holidays, the courts haven't got
9 there yet, and that would be a very reasonable way to
10 handle it, and if courts get there, I think everyone
11 would agree that's probably a good thing, it remains to
12 be seen whether they do that.

13 MS. MICHEL: Bob?

14 MR. ARMITAGE: I would just make one note here.
15 You've heard that there are some things you could do to
16 maybe fix will, make it better, maybe do some things
17 later, maybe you do some things earlier, it's not clear
18 exactly what and how you do it.

19 When the National Academy did their 2004 report
20 on the patent system, it was co-chaired by Dr. Richard
21 Levin, who is president of Yale University, and he said
22 as to willfulness, the doctrine of willfulness and the
23 doctrine of inequitable conduct, these were two things
24 that should just be taken out of the patent system
25 outright, and on the National Academy's panel of

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CERTIFICATE OF REPORTER

DOCKET/FILE NUMBER: PO93900
CASE TITLE: FTC HEARING ON THE EVOLVING IP MARKETPLACE
HEARING DATE: FEBRUARY 12, 2009

I HEREBY CERTIFY that the transcript contained herein is a full and accurate transcript of the steno notes transcribed by me on the above cause before the FEDERAL TRADE COMMISSION to the best of my knowledge and belief.

DATED: FEBRUARY 26, 2009

DEBRA L. MAHEUX

CERTIFICATION OF PROOFREADER

I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation and format.

DIANE QUADE