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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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1  
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 Law Center.

2 After Steve, Chris Sprigman will provide an  
3 overview of the post-eBay cases discussing how courts  
4 are analyzing the four equitable factors. Chris is an  
5 Associate Professor at the University of Virginia School  
6 of Law where he teaches intellectual property, antitrust  
7 law and competition policy, among other courses.

8 In addition to other academic positions, he was  
9 a partner at King and Spaulding and an appellate lawyer  
10 at the United States Department of Justice's Antitrust  
11 Division.

12 I've actually known Chris for a long time, and I  
13 tried to think about when it was I first met him. I  
14 started figuring out how long and realized I had to have  
15 made a math mistake because neither of us could possibly  
16 be that old. I think the thing that stands out about  
17 Chris is that he has a wonderful ability to take very  
18 complicated issues and articulate them extremely  
19 clearly, so we're very lucky to have both Chris and  
20 Steve with us today. Thank you.

21 MR. MALIN: Good morning, everyone. Thank you  
22 for that very nice introduction, Erika. As she  
23 mentioned, my name is Steve Malin. What I'm going to  
24 be focusing on today is one aspect of the district  
25 court and appellate court cases post-eBay.

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  
24 screen. The factors are in three general categories.

25           The first factor is related to the patentee and

1 what the patentee might have done. The second is  
2 factors related to the infringer, and the third is  
3 factors related to third parties and the public. So  
4 let's take a quick look at some of those factors so  
5 you'll have an understanding of the analysis we did  
6 before we get into the conclusions.

7 This is an example of a portion of  
8 the factors related to the patentee. For instance, was  
9 there a delay in bringing suit? Is it a practicing  
10 patentee? In other words, does the patentee make a  
11 product that falls within one of the asserted claims?  
12 Is there a direct competitor? Many of these will be  
13 familiar to all of you in the audience.

14 The second category regarding the defendant, the  
15 alleged infringer, questions such as: Was there willful  
16 infringement found, an offer to avoid future infringement,  
17 *et cetera*? And finally as to public, we have  
18 defendant's employees, defendant's customers, health  
19 concern, *et cetera*.

20 So what we tried to do was to make some standard  
21 categories where we could read the case, a number of  
22 cases it turns out, and just check off boxes, and this  
23 is how we did it. For a case to be included in our  
24 study, it had to have been after the United States  
25 Supreme Court *eBay* decision.



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 simply because the courts cite it over and over and  
2 over, this fact.

3 The second type of relevance I'm going to  
4 present to you is the biggest and smallest differences  
5 between a yes or no answer, so from a litigator's point  
6 of view, this is going to tell you what do you focus on,  
7 meaning there is a big difference in grant rate between  
8 a yes and a no answer versus what you let go, which is  
9 there's a very small difference in grant rate, because  
10 even though the court discussed it, it doesn't seem to  
11 make any difference.

12 So let's jump into the data here. These are the  
13 most frequently considered factors. We have a little  
14 bar chart there for you. We have at the top, not  
15 surprisingly, practicing patentee. That was discussed  
16 in 43 of 49 cases.

17 The next is direct competition. That was 41 or  
18 42 of 49 cases. We go down this list, and I'm going to  
19 discuss each of these. Again where I cut it off in  
20 terms of frequently considered factors is if it was  
21 considered in fewer than 25 percent or less than 25  
22 percent of the cases, then it's not going to be  
23 presented here.

24 So let's look at the first one, and I'm just  
25 going to go through these and let you know what we

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 frequently? In fact in about half the cases the court  
2 discussed the affect on the patentee's reputation, and  
3 it is discussed in many ways but ultimately comes down  
4 to the patentee's goodwill, patentee's reputation.

5 We see a pretty big difference in grant rate  
6 here, almost 100 percent grant rate when you have harm  
7 to patentee's reputation. So as a litigator, this is  
8 going to draw your attention, whichever side of this  
9 you're on.

10 When the answer was no harm to patentee's  
11 reputation, zero, okay? So we have another difference  
12 maker here in your case, 95 percent difference in the  
13 grant rate, so that is obviously significant.

14 Now, some of these next focus a little more on  
15 the defendant, the impact on the defendant's business.  
16 Of course, this isn't balancing the hardship. The  
17 defendant comes in and says, Oh, you're killing me, I  
18 have to lay-off my people, I have to do this, it's my  
19 sales, *et cetera*, mentioned in just about half the cases  
20 so still pretty important, but look at the difference in  
21 the grant rates.

22 So if, yes, there was an impact on the  
23 defendant's business, it's about 80 percent; no, there's  
24 no impact on the defendant's business, it's about 70  
25 percent, very little difference in the grant rate. So

1 what does that mean? That means if this is a factor in  
2 your case, you might not want to rest your entire case  
3 on this because it doesn't seem to make a lot of  
4 difference one way or the other, at least from a  
5 question of correlation, less than 10 percent  
6 difference.

7 Similarly what about if the patentee licensed  
8 others? We see that in a lot of cases here, over 20 of  
9 the cases, specifically mentioned whether the patentee  
10 licensed to others.

11 If the patentee did, the grant rate is just over  
12 60 percent, so that's less than the average, and if the  
13 answer is no, the grant rate is 80 percent, just a  
14 little above the average, so it seems to make a little  
15 bit of difference, but less than 20 percent, not much  
16 difference, so again in your case, if this is one of  
17 your facts, you might not put your whole case behind  
18 this.

19 What about harm to the defendant's customers?  
20 We see that sometimes. That's effect on third-party,  
21 public interest, *et cetera*. This does seem to make a  
22 difference. If there is discussed harm to defendant's  
23 customers, we only have a 50 percent grant rate. No  
24 harm to the defendant's customers, if that is  
25 specifically discussed in the case, 100 percent grant



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 tell you the  
12 yes versus no, so that nine versus nine means that in  
13 the 9 cases in which it was discussed, nascent or  
14 developing market, the injunction was granted nine out  
15 of nine times, okay?

16 Now, the court found it existed in every single  
17 case, so the no is -- it's a little misleading you might  
18 say because none of the courts said, Oh, there is no  
19 nascent market so I'm going to deny it, but it is hard  
20 to ignore nine out of nine if the answer was there, so  
21 if that is in your case, that is something you will want  
22 to pay attention to.

23 Price erosion. Now, this is one that's a little  
24 more balanced. We had a total of six decisions in  
25 which price erosion was specifically discussed. If it

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  
10 if that is in your case.

11 What about if they're easy non-infringing  
12 alternatives? Again, typically you get this evidence  
13 from the defendant during the trial when they're trying  
14 to minimize the damages. Once again, if the court finds  
15 there are relatively easy, non-infringing alternatives,  
16 there's an 86 percent grant rate, and that  
17 actually should be six out of seven and one out of  
18 seven. I got my slide wrong there because the  
19 difference was 86 percent, so that's also important.

20 And this is the flip side of the plaintiff  
21 specifically offering. Instead of the plaintiff  
22 refusing to offer, this is the plaintiff specifically  
23 offering to license to the defendant. Again we have  
24 basically the flip of the other one. If the answer is  
25 no, the plaintiff hasn't done it, the grant rate is very

1 high.

2 If the plaintiff has offered to do it, the grant  
3 rate is low, and of course that reflects the fact in the  
4 judge's mind that money is a reasonable alternative to  
5 the injunction.

6 Invention is a small component, trivial  
7 component, one might say. If that is the case -- if yes,  
8 the grant rate is very low. It's zero. If the answer is  
9 no, the grant rate is right about -- just under average,  
10 so 75 percent difference there.

11 Is it the patentee's only product? It was  
12 granted six times out of six when the answer was yes.  
13 If the answer was no, big difference, almost 70 percent  
14 difference, just about a third of the time, okay, so  
15 again another difference maker if that's in your case.

16 Finally, and I'm going to just zip through these  
17 last ones. These are the ones that make almost no  
18 difference, and I've covered a couple of them, but I  
19 just want to bring it up again. So if you have this in  
20 your case or you're looking at assessing a case based on  
21 this, and you say, Oh, wow, I have this fact in my  
22 favor, these apparently don't make a lot of differences  
23 to the judges.

24 I'll just go through these very quickly. Impact  
25 on defendant's business? We discussed that one already.



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  
21 Supreme Court. A unanimous Supreme Court reverses the  
22 Federal Circuit.

23           The opinion by Justice Thomas states that "in  
24 patent cases like in other cases, the availability of  
25 injunctions will be assessed according 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  
8 damages, is simply a mirror image of the first factor,  
9 the irreparable harm factor, and the courts have  
10 essentially treated them as one inquiry as far as I can  
11 see in the cases following *eBay*.

12 Third, that the balance of hardship, should an  
13 injunction not be granted, would fall more heavily on  
14 the plaintiff, and finally, fourth, that the public  
15 interest lies in granting the injunction.

16 So let me just talk for a moment about Justice  
17 Thomas' opinion, and I'll be quick about this. The  
18 arguments are very straightforward. The opinions are  
19 very short. Justice Thomas notes that the traditional  
20 equity factors are presumed to apply in litigation  
21 generally and that nothing in the Patent Act suggests  
22 that they don't.

23 In fact, the act itself suggests that the  
24 judicial equitable principles do apply, stating that  
25 injunctions may issue in accordance with principles of

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  
9 mind in ways that broadly make sense.

10 So first headline, and again I think Steve is  
11 dead on in talking about this. I think it's important.  
12 If the court finds that the parties are in direct  
13 competition, an injunction will usually issue. That is  
14 most often true. There are some cases, however, and so  
15 Steve has given you that headline, but I want to give  
16 you some of the exceptions and talk a little bit about  
17 those.

18 So there are a clutch of cases -- there's a  
19 clutch of cases involving competing parties. Mostly,  
20 these cases date from the period shortly after the eBay  
21 opinion came down in which courts hold that evidence of  
22 lost sales, lost market share, damaged reputation is not  
23 enough to warrant injunctive relief.

24 So *Abbott v. Andrx* is an example. There the  
25 Federal Circuit vacated a preliminary injunction that a

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  
5 assertions of lost sales were right, but it made clear  
6 that if potential lost profits sales alone were taken as  
7 evidence of irreparable harm, that position would  
8 require, quote, a finding of irreparable harm to every  
9 manufacturer or patentee regardless of circumstances.  
10 The court made clear that although quantifying the  
11 damages from these lost sales may be difficult, the  
12 plaintiff had not shown it to be impossible.

13 The district court in *Altana v. Teva*  
14 expanded the *Abbott* holding, stating that it could not  
15 find irreparable harm based on allegations of lost  
16 revenue or loss of research and development  
17 opportunities, at least where money damages were  
18 calculable, and the defendant was in a position to pay  
19 the damages award.

20 So there are two or three additional cases in  
21 this vein. They all seem similar to me. Courts in  
22 these cases have shown some reluctance to find  
23 irreparable harm when arguments such as lost sales, lost  
24 market share, price erosion or lost research  
25 opportunities are advanced.

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  
25 would allow it to develop infrastructure that would make

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  
15 injunction should issue -- should not issue, I'm sorry,  
16 because it and plaintiff Broadcom were at most indirect  
17 competitors. They did not sell the same or even  
18 compatible chip sets.

19 The court noted, however, that the quality of  
20 competition here, really competition of base band chips  
21 was not for the business of individual users. It was  
22 for these big design wins in cell phone manufacturer's  
23 designs of phones and in cell phone carrier's adoption  
24 of phones, and in this circumstance the parties were  
25 really direct competitors. They were competitors really



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  
6 in golf, but the competitive model here was very  
7 interesting. In this case, the district court issued an  
8 injunction, even though the parties had ceased to be  
9 direct competitors in golf balls using the patented  
10 technology.

11           The court engaged in an interesting and I think  
12 quite deft competitive analysis and noted that even  
13 though the parties were no longer direct competitors,  
14 the defendant's continued marketing of an infringing  
15 ball would affect what the court called the pyramid of  
16 influence, and that is that pros use this ball, and that  
17 the halo effect of the pro using the infringing ball  
18 kind of filters down all the way to the kind of hacker  
19 golfer and really just shifts the market in ways that  
20 are very difficult to quantify. So very interesting  
21 case, worth a look. Okay.

22           So the parties are in direct competition. Most  
23 times an injunction is going to issue. What about when  
24 they're not -- when the parties are not in direct  
25 competition, and this is the second headline,

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 four  
12 factor test itself creates some tension with our general  
13 policy in favor of settlement.

14 And I'm not in favor of throwing out several  
15 hundred years of developing equity jurisprudence on the  
16 basis of marginal effects on settlement incentives,  
17 either in the patent context or really even anywhere  
18 else, so this is kind of a blow back effect of the  
19 equitable test that I think we've been living with for a  
20 long time. It's become evident in the patent context,  
21 but there's nothing special there.

22 Okay. So I'm going to finish up with a third  
23 observation, and this is a little bit different and a  
24 little bit more pointed, so as this jurisprudence  
25 develops, we need to think about the law of unintended

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           Now, equity is a decision-making mode, and it  
2 doesn't really, on its own, tell you what the  
3 architecture that it's implementing should be, and if  
4 you look back at equity cases from a long time ago, it's  
5 not the case that they are the same in various areas.

6           Now, it's true that people disagreed with how  
7 the equities should work out in various areas. The  
8 automatic injunction rule is but one possible way of  
9 doing that, and it's not the necessary way to implement  
10 a property conception. The law of property  
11 certainly tells us that, but it is the case that we have  
12 to make certain decisions before we even apply an  
13 equitable decision-making mode, and that just saying  
14 four equitable factors doesn't make those decisions for  
15 us.

16           So if we look at property and ask, what  
17 should be similar or different in property versus  
18 intellectual property, there are certainly very salient  
19 differences. Information is not rival, so we shouldn't  
20 expect there to be overall identity, but one  
21 architectural feature of property that is reflected in  
22 intellectual property and that is impacted by eBay and  
23 its aftermath is this basic structure in property that  
24 we solve a lot of problems in rough and ready manner  
25 through what I call an exclusion strategy.

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  
19 a matter of case by case cost-benefit analysis all the  
20 way along. I suggest that there's a basic architecture,  
21 even given the problems with notice and so forth, that  
22 we want to give a little bit more not automatic emphasis  
23 on injunctions, and that we do have safety valves for  
24 the good faith infringers and so forth which should --  
25 we should take this opportunity with eBay to expand

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.

24 MS. MICHEL: Thank you, and I think that Henry  
25 Smith will be this way through everything we talk about



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

3 Any comments before we move on to John Golden?

4 John, I know you have thoughts about general  
5 principles that should inform our thinking about this  
6 that complement what Henry just said nicely, if you  
7 could share those, please.

8 MR. GOLDEN: Right. I mean, I think as we try  
9 to debate how to develop patent remedies, we run quickly  
10 into a problem because we have general goals, let's say  
11 promoting technological process, promoting social  
12 welfare or perhaps consumer welfare, but the problem is  
13 that markets for technology are complex, diverse and  
14 constantly changing.

15 The patent law reaches across a very wide range  
16 of technology. It deals with a wide range of markets  
17 where the optimal design of a system of remedies really  
18 may be different, and as a result, when we have  
19 discussions like this, this may happen this afternoon,  
20 we have a number of different people coming from  
21 different industries dealing with different technologies  
22 who have plausible but also quite different views of how  
23 the current system is working and how it should be  
24 changed.

25 So, I just tried to think of some general

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 models that are otherwise legitimate and plausibly  
2 desirable.

3           So here I have to say I greet with some  
4 skepticism the way that a number of district courts  
5 have tended to apply eBay and focusing on this question  
6 with respect to irreparable harm, whether there's direct  
7 competition or whether you have a practicing entity or  
8 not.

9           This, to my view, tends to mean that patent  
10 rights are going to be less valuable in the hands of  
11 companies that aren't manufacturers or in line service  
12 providers as opposed to others, so will tend to favor  
13 companies that are vertically integrated in technology  
14 markets and may not be the best way at the end of the  
15 day to promote invention and innovation.

16           So the anti-discrimination principle may at  
17 least give us a starting point of some skepticism with  
18 respect to the proposed approach or the approach a  
19 number of district courts have taken there.

20           My third principle is one of devolution, and  
21 this again -- a lot of these, particularly the first  
22 three principles, relate to a sense that we should have  
23 some humility and modesty in thinking of what we can  
24 accomplish through economic analyses and through an  
25 attempt to establish a finely tailored regime of

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  
16 consider in certain circumstances who the cheapest  
17 information provider is.

18 In addition, I mean, this often works with the  
19 non-absolutism principle, that one thing we have seen  
20 occur as a result of eBay is now we do have all these  
21 arguments being made about what the effects of an  
22 injunction are going to be, and we are getting a little  
23 more information, albeit still a very limited amount of  
24 information, about how these markets work and what the  
25 effects on the ground of what the courts are doing or

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  
4 about the need for both some flexibility, non-absolutism  
5 and at the same time predictability and the points of  
6 exclusion principles.

7 What thoughts do the panelists have about why  
8 it's important to take into account both sides of that  
9 equation? Why is it important to get the injunction  
10 analysis right, to award injunctions in some instances  
11 and deny them in others? Does  
12 anyone think we would be better off with more of an  
13 absolute easy to know rule, the patentee gets the  
14 injunction, and this is really more of a pragmatic  
15 question than a theoretical question? Why are we even  
16 having this conversation? Why do we care?

17 Anne?

18 MS. LAYNE-FARRAR: I think we care because of  
19 the possibilities of foul play or strategic use, so in a  
20 world with no hold-up ability at all (where hold-up is  
21 defined as the let's say extortionistic use of sunk  
22 investments, irreversible investments to increase the  
23 royalty payments or patent payments beyond the value of  
24 the technology embedded in the patent) -- in a world absent  
25 that risk, then always granting an injunction would be a



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  
12 practicing or non-practicing, competing or non-competing,  
13 so John and I are very much in agreement on that  
14 point, but there are -- it seems like an evaluation of  
15 the case at hand is necessary rather than an absolute  
16 rule.

17 MR. SPRIGMAN: I just want to add to what Anne  
18 said, if I may, please?

19 MS. MICHEL: Yes, please.

20 MR. SPRIGMAN: I agree that  
21 sunk cost, irreversible investment is the kind of  
22 foundation that gives rise to some strategic behavior.  
23 I would add to that, and I talked about it a little  
24 bit -- about this a little bit before.

25 So it's often just very difficult to know

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  
24 there's some stakes. It's information forcing.

25 I would agree with John that we have to think

1 about who's the best party to get the information from,  
2 and we would structure incentives -- we should structure  
3 presumptions, for example, in the four factors to get  
4 information from the right person, so I don't think the  
5 work has been done, but I think the first step has been  
6 taken to an information forcing rule.

7 MS. MICHEL: Henry.

8 MR. SU: I would like to answer your question in  
9 a slightly different way, which is I don't think the  
10 issue here really is about too many or too few  
11 injunctions; rather what eBay teaches us is that there's  
12 a process that needs to be adhered to, and that if  
13 courts of equity as they have functioned historically do  
14 their job, they will reach the right result, and in an ideal  
15 world, the right result will advance patent policy.

16 I think that should be the inquiry. It's not  
17 about do we see too many injunctions or too few  
18 injunctions because even after eBay, both the Supreme  
19 Court and the lower courts have not abandoned the idea  
20 that the essence, the intended remedy for infringement  
21 of a right to exclude is the  
22 injunction. It's just that we expect, as Chris said,  
23 the patentee to step through certain hoops to prove that  
24 case. But if that's done, the injunction should issue  
25 as a matter of equity, and that should be the right

1 result that advances patent policy.

2 I would also say that in looking at this issue,  
3 if you're concerned about the issuance rate for  
4 injunctions, a mirror or sort of a corollary inquiry  
5 that you might look at is the current debate over patent  
6 misuse reform because, as many of you may know, there's  
7 been legislation afoot to try to bring more codification  
8 to the misuse doctrine, including how misuse is to be  
9 proved, when can it be proved, by what type of conduct,  
10 and also the extent to which misuse limits or eliminates  
11 the ability to enforce a patent.

12 I think that's sort of the mirror image of  
13 injunctions which is both of them are equitable in  
14 nature, and what we're trying to do is to figure out  
15 what sort of conduct we want to encourage and what sort  
16 of conduct we want to penalize.

17 MS. MICHEL: Chris mentioned the idea that  
18 actual denial of an injunction may promote innovation in  
19 some way. Christine, you've written on this a little  
20 bit. Can you expand a bit on that concept?

21 MS. MEYER: Certainly. I mean, when we think  
22 about the concept of innovation, I think we have to  
23 remember that it doesn't take place all at once in one  
24 fell swoop. There are a number of steps that sometimes  
25 are concentrated with one entity when it both does the

1 initial R&D that will lead to a patent and then  
2 commercializes the product, but oftentimes, as we know,  
3 that doesn't happen within the context of one entity.

4 One of the reasons why the patent  
5 system is so important is because there's the  
6 dissemination of knowledge that's developed by one set  
7 of individuals and then can be used throughout the  
8 economy.

9 So the question is -- the question is often  
10 asked: Will injunctions hurt or harm innovation? If  
11 more injunctions obviously give more power and balance  
12 of power towards the patent holder on an economy-wide  
13 level, that's going to increase patenting, which --  
14 there are two phases to that. There is encouraging the  
15 innovation, the R&D, the development that's going to  
16 lead to new ideas, but it's also taking those ideas and  
17 deciding to embody them in a patent as opposed to  
18 keeping them secret in a trade secrets kind of a way.

19 So more injunctions are going to encourage that  
20 part of the innovative behavior, and clearly we're all  
21 aware of the debate about whether or not sort of  
22 patenting actually is sort of -- increases innovation or  
23 there's too much patenting is a bad idea, but we'll put  
24 that to the side for a moment.

25 But of course there's the second piece of

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 can't earn my proper return, that's not  
19 going to allow enough profits for me, go take a walk.  
20 After you've already bought the piece of equipment and  
21 built the plant, then the question is a very different  
22 one. It's how can I re-purpose this plant?  
23 How can I use this piece of equipment for something  
24 else? Maybe it's a specialized piece of equipment  
25 or a specialized plant, in which case I can't

1 recover my entire investment, and I want to  
2 earn something out of it, so then the  
3 negotiation between the manufacturer and the  
4 patent holders is a very different one.

5           And it may be the case under certain  
6 circumstances, for example, when that equipment or plant  
7 can't be re purposed or can't be sold or scrapped for some  
8 value, that the patent holder can raise the licensing  
9 terms and earn more than it otherwise could have, earn  
10 more than technically the patent value is worth. It's  
11 extracting some of the rents from the manufacturer and  
12 lowering the profit.

13           And the reasons we don't want that to happen, as  
14 Christine just mentioned, is because it affects the  
15 ability to commercialize. Perhaps it affects follow on  
16 innovations if the implementer has R&D of their own and  
17 it takes that product to the next step.

18           MS. MICHEL: You've identified four factors in  
19 your writing for -- that hold-up -- that need to be  
20 present for a hold-up to occur. Could you walk us  
21 through those, please?

22           MS. LAYNE-FARRAR: Sure. Actually I have to  
23 clarify, I can't take credit for these four factors.  
24 They're actually four factors that underlie the patent  
25 hold-up model presented by Lemley and Shapiro in their



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           So while it is possible that many instances of  
2 infringement are inadvertent on the part of the  
3 manufacturer, it's also possible that it wasn't  
4 inadvertent, that the manufacturer makes a choice either  
5 not to look and turn a blind eye, not do proper due  
6 diligence, or actually knows about some rights out  
7 there, reading on the innovations that it wants to  
8 incorporate in its product, but sees who's holding them  
9 and figures they are in no position to enforce this  
10 particular right, I'll probably get away with it, or  
11 they won't notice, maybe they will never even detect it.

12           So I think that's one piece we have to keep in  
13 mind.

14           MS. MICHEL: Is that an economic concern or an  
15 equitable concern?

16           MS. LAYNE-FARRAR: I think it's an economic  
17 concern because as an inventor, part of your calculation  
18 is: Is it worth investing these R&D dollars, is it worth  
19 my making this investment? I'm looking at what my  
20 return is going to be. I think that my investment is  
21 going to lead to some new invention that I'm going to be  
22 able to get a million dollars out of the marketplace  
23 for, but if I know that I can't identify everybody who  
24 is using it, I have to reduce that million dollars by  
25 the probability of my finding who's going to really use

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  
8 making -- it's the analogous situation to the hold-up  
9 with the manufacturer except now the investment is in  
10 R&D and in developing this new technology, right?

11 So the lower the odds of my identifying who is  
12 infringing it and who I should approach for a license,  
13 the lower my expected return, and that can mean that  
14 some inventions, some investments for inventions do not  
15 get made, because even though it would be socially  
16 useful, I don't expect to make enough of a return  
17 because I don't think I could identify everybody that is  
18 going to license it.

19 So it's very much a social welfare question, not  
20 just a matter of equity, although you could probably  
21 make equity arguments too. Economists usually don't  
22 like to make stuff like that up.

23 MS. MICHEL: Thank you.

24 MR. SPRIGMAN: Suzanne, before we move on, could  
25 I just add one thing?

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  
23 license and manipulating their behavior with a view to  
24 those.

25 And so you have to come up with a system that

1 deals with opportunistic behavior that's increased or  
2 decreased no matter what you do and balance those things  
3 off. The key is, to a large extent, bad faith, so that  
4 if somebody -- if we can narrow down the hold-up problem  
5 enough, then we can start talking about fairly specific  
6 factors of, the patent holder didn't really give proper  
7 notice and so forth without undermining the entire system.

8 I mean, in every single -- if we have to go  
9 through comprehensive cost benefit analysis of every  
10 aspect of the notice and so forth that's going to be  
11 fairly difficult, but if we can narrow in on the cases  
12 where we're really worried about hold-up and then start  
13 talking about, what was the overall opportunistic  
14 situation, maybe that's somewhat trackable, but it seems  
15 to be that opportunism is the big theme running through  
16 the whole question.

17 MS. MICHEL: We'll move around the table  
18 clockwise. Henry Su?

19 MR. SU: What I try to do with these four  
20 factors was to reconcile them with the factors in eBay,  
21 and in my mind, the first two aren't congruent at all  
22 with eBay. I mean, the concept of inadvertent  
23 infringement is essential to patent law. It's a strict  
24 liability tort, and unless you have the situation of a  
25 deliberate copyist, all infringement is in some way

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 talking about because hold-up isn't really the point.  
2 But I'll confess I don't have a better term yet. It has  
3 this connotation of a bandit on the highway in the wild  
4 west. It causes the plaintiffs who really do want to  
5 hold-up to think that they should litigate in Texas and  
6 places like that.

7 To me the real factor here is -- I like the *eBay*  
8 factors too, although I agree very much with Chris that  
9 the first two, inadequacy of money remedies and  
10 irreparable harm seem to be combined. I always felt  
11 that I had to keep reading the cases to understand the  
12 difference, and I feel very happy now that a law  
13 professor has said they really are the same.

14 But the key to this is to look at the second two  
15 factors, balance of hardships and the public interest  
16 and these don't depend upon whether the plaintiff is  
17 some sort of manipulative, opportunistic bad guy or  
18 someone who just has a patent that seems to hit into an  
19 area that has a huge impact beyond the value of his  
20 invention.

21 When this came out, the tendency in every brief  
22 on injunction, the plaintiff would always argue of  
23 course that all four factors favor me, and the defendant  
24 would always argue, All four factors are present and  
25 they favor me. There's a tendency to almost lump them

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.

13          Further, one other problem with the hold-up  
14          language is, I think, to me that it suggests -- hold-up is  
15          an immediate thing. I think one thing to keep in mind  
16          with respect to the incentives for the infringer is the  
17          permanent injunction is only generally going to come  
18          after a number of years, and I think there is a question  
19          about what incentives you want to provide for the  
20          potential infringer.

21          Once they've been sued, they're on notice of  
22          potential infringement, and then they learn more about  
23          the scope of the claims as you get through claim  
24          construction and more about the potential validities as  
25          litigation goes on.

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.

10 So they start -- as George mentioned, the first  
11 two are focused on the patentee, and it is very much a  
12 pragmatic question, so when is it in law that we are  
13 entitled to extraordinary relief?

14 Well, there's a couple of situations. One is  
15 when money relief is not adequate, what does that mean?  
16 The pragmatic aspect from a patentee's point of view is  
17 when you can't calculate what your money damages are,  
18 because what happens -- let's say you have an instance  
19 of damage to reputation, okay? It's tangible. It's  
20 palpable. It's real.

21 You try to put a number on it, and at trial, the  
22 defendant is going to say, Well, name some contracts  
23 specifically you lost because of that. Name specific  
24 dollars and cents you lost. The patentee is going to  
25 say, I can't do that. The court is going to exclude all

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 potential infringer knows that he has a compulsory  
2 license.

3 He can choose to infringe. You can take him to  
4 court, and at best you get a reasonable royalty money  
5 damages. Maybe you don't get detected. Maybe the  
6 patent holder doesn't have the resources to challenge,  
7 but it shifts the balance then at the negotiation table  
8 in dramatic ways.

9 Now, that doesn't mean you grant injunctions  
10 every single time, but we need to be careful about  
11 taking away any chance at all of getting an injunction  
12 because it really does have a long term repercussion for  
13 how the two parties are negotiating *ex ante*, and what  
14 the threat points and walk away points are and whether  
15 or not the patent holders really over-compensated,  
16 under-compensated.

17 MS. MICHEL: Chris, I think you had your tent up  
18 next.

19 MR. SPRIGMAN: Okay. So I would agree with that  
20 completely. I think we hear all the time from lawyers  
21 uncertainty, uncertainty, uncertainty. I actually think  
22 everyone wants uncertainty. You want a certain level of  
23 uncertainty because this encourages people to actually  
24 come to the table and make a bargain, so they can assess  
25 their risks and they can try to distribute their risk in

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  
14 me just give you an example of copyright. So the fair  
15 use analysis, right, which is a standard, it's got four  
16 factors.

17 So the stakes are different because if you have  
18 a finding of fair use, it's a liability rule with a  
19 price of zero, so it's not like in patents, where if you  
20 don't issue an injunction, it's effectively a liability  
21 rule but with a price. So stakes are high in copyright,  
22 and if you look at the way Section 107 looks in the law,  
23 you have these four factors, but if you look at the way  
24 Section 107 actually gets applied in the court, there's  
25 been a fair amount of change, right?

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?

25           MR. SMITH: So this is related to that. But I

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 replicate that structure without an  
2 awareness of where it came from or why it developed in  
3 the first place.

4 MS. MICHEL: Would that structure suggest we  
5 should have a rebuttal presumption of irreparable harm  
6 as to the first two factors once there's been a showing  
7 of infringement? Do we have that *de facto*?

8 MR. SMITH: Yeah, I mean, it might be a little  
9 bit more *de facto*. I do think that -- we're certainly  
10 now in a world where automatic injunctions are not the  
11 name of the game. Now, the question would be. In one  
12 sense rebuttal -- I think -- as John was saying,  
13 and Steve, if you can show that there's a serious  
14 problem with quantifying damages, then a rebuttable  
15 presumption for an injunction seems to be called for, for  
16 reasons we've been discussing.

17 Then the question is: What do you in terms of  
18 safety valves for the problems that gives rise to -- and  
19 how narrow or wide and what factors that you should  
20 respond to? So I guess the short answer is, yes, sort  
21 of.

22 MS. MICHEL: Okay. And the second two factors,  
23 the balance of the hardships and the public interest are  
24 your safety valve.

25 MR. SMITH: Yes.

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 require the assignment back of rights and follow on  
2 innovations.

3 And so one question, and it might go to this  
4 issue whether there should be a rebuttal presumption of  
5 irreparable harm, is whether the ability to set the  
6 terms of license should really weigh in that.

7 Then, traditionally, I think at least some courts  
8 had really viewed that as a basis for, at least, a  
9 rebuttable presumption of irreparable harm and said, the  
10 way to overcome that was if you had been what Seth  
11 Waxman said I think in arguing for the Supreme court  
12 case is a promiscuous licensor.

13 So if you had essentially just said, I will  
14 license this to anybody for X amount of money, then you  
15 had an established royalty rate, so there is case law  
16 about what is an established royalty rate and when you  
17 essentially turned your patent into a fungible -- or  
18 your patent rights into sort of fungible goods in that  
19 fashion. That would be one way you could overcome this  
20 presumption. Anyway, that's one issue.

21 I think with regard to Christine's point, it is  
22 interesting with these -- the ongoing -- the award of  
23 ongoing royalties or compulsory licenses and the  
24 question of whether that provides an adequate remedy,  
25 going forward, in replacement of an injunction.

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 harm -- I will add with or without a presumption to  
2 start with, whether you have a rebuttable presumption to  
3 start with, the point is it's still something that  
4 you're going to take evidence on and decide.

5 But you should not have the system where having  
6 decided that the plaintiff is irreparably harmed in some  
7 way because the damages can't be quantified precisely  
8 enough or because he had some plan for controlling the  
9 market, licensing a certain way, whatever the reasons,  
10 you should definitely not then just say, Well, therefore  
11 we're going to go down the road and give him an  
12 injunction because you have to do a balancing here.

13 You have to look at the balance of hardship on  
14 the defendant, which may impact all kinds of other  
15 businesses. You have to look at the hardship on the  
16 public. It may impact all kinds of other people, and  
17 you have to do a balancing. These things really should  
18 be independently considered.

19 The other thing I was going to add, stepping  
20 back a little bit, someone was talking about certainty,  
21 and certainty of course would be great if there was  
22 any way to do it. You obviously can't do that.

23 Particularly in patent law, I mean, and the  
24 efforts of the patent office are worthy to try to do a  
25 better job and so on, but ultimately you can't, I don't



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  
16 exists, and that it is, therefore, reasonable to expect  
17 the patentee to come forward with that, with or without  
18 a presumption.

19 The second point is a bigger issue, and that is  
20 any sort of automatic rule then takes the discretion  
21 from the district courts, so the overall policy question  
22 is: Do we want to tell the district courts what to do,  
23 or do we want to give them the sort of fuzzy tests and  
24 let them decide on a case by case basis?

25 An example that comes to mind are the sentencing

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  
11 over time the district courts will do the best justice  
12 they can, or do we make an absolute rule in which case  
13 either you have occasional bouts of great inequity  
14 because no one could have ever considered that fact  
15 situation, or you begin to have judicial exceptions that  
16 are created to that rule?

17           So my own opinion is that the judges are doing  
18 very well under the current four factor test, and it  
19 gives them a lot of leeway and that there is some danger  
20 in any sort of categorical rule because then the judges  
21 cannot do what they're paid to do, which is to consider  
22 the facts of that case and issue the best decision that  
23 they can.

24           MS. MICHEL: You raise an interesting point  
25 about after the court discusses the first two factors,

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 any and all evidence about opportunistic behavior, so  
23 because opportunism is, at its core I think, aimed at  
24 taking advantage of some vulnerability of the defendant,  
25 right, so to create some hardship. The hardship is the

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 on the table. It's a key one. Christine?

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 would say costs that are too high because  
13 of the hold-up on to the infringer and the competitor in  
14 the marketplace.

15 So I think whether or not those point out at the  
16 end of the day -- I agree with you, and I think that's  
17 just one piece of a large social welfare question, but I  
18 think there are a lot of issues with the competition  
19 that will be affected, and we have to see how that plays  
20 its way through the courts and then actually discuss it.

21 MS. MICHEL: Any other concluding thoughts?  
22 Henry?

23 MR. SU: I think this morning we talked about  
24 the eBay factors in terms of either a grant or denial of  
25 an injunction. I think it should not be forgotten there

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.)

18  
19  
20  
21  
22  
23  
24  
25

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           MS. MICHEL: I'll start with a very broad  
2 question. How does the ability to obtain an injunction  
3 or to be hit with an injunction affect decision-making  
4 in your company or with your clients on a whole range of  
5 topics, how to invest R&D, how to negotiate a license,  
6 and anything else you might want to add into that?

7           Would anyone like to start us off with that one?  
8 Kevin, I'm going to call on you because you were  
9 nodding.

10          MR. RHODES: Well, first of all, thanks for  
11 inviting me back today. I checked, I wasn't dis-invited,  
12 so thank you.

13          By way of background a little bit, yesterday I  
14 described 3M and our patent portfolio and our patent  
15 litigation in some detail, so I repeat that, except to  
16 make the point again that we are very diversified in  
17 terms of our business interests.

18          We have industrial and transportation  
19 business -- businesses I should say, and consumer  
20 product businesses, telecommunications businesses,  
21 healthcare, safety and security, display and graphics,  
22 so we have a diverse range of interests. We find  
23 ourselves on both sides of this issue, both seeking  
24 permanent injunctions and opposing the entry of  
25 permanent injunctions and so we try to take a balanced

1 approach.

2 Now, on the subject of injunctions -- first of  
3 all, in the interest of full disclosure, I will say we  
4 did file an amicus brief in the *eBay* case supporting the  
5 Federal Circuit's nearly automatic injunction rule, so,  
6 yes, I do think *eBay* was wrongly decided, but for better  
7 or worse, *eBay* is the world we're living in, and I think  
8 it's fair to say for the foreseeable future, we're going  
9 to see typical common law, case law development of the  
10 *eBay* standards and further refinements. So our interest  
11 is hoping that as those standards develop through the  
12 common law process, that they are balanced and we do get  
13 them right.

14 I think the challenge, as I see it, is to avoid  
15 bright line rules, that I hope the case law doesn't  
16 evolve to the point where if you're not manufacturing a  
17 product in direct competition with the defendant that  
18 you don't get an injunction because as we talked about  
19 yesterday, there are a variety of different business  
20 models, ways to monetize IP.

21 We have to make sure that we don't reduce the  
22 incentives for say research institutions to engage in  
23 R&D, for firms to engage in commercialization activities  
24 that might not practice a patent at a particular point  
25 in time but wait for an emerging market to develop and



1 that sort of thing.

2 So I think we need the -- the lesson of *eBay* is  
3 not to have categorical rules, and I hope the case law  
4 develops in that direction because let's not forget that  
5 one can't consider permanent injunctions in a vacuum.  
6 We've got to consider them in the context of everything  
7 going on in the patent world.

8 We talked yesterday about calls for reducing  
9 damages awards. We're now talking about injunctions  
10 being entered less often as they were before. I don't  
11 recall seeing this morning any overall statistics on how  
12 often injunctions are entered in the post-*eBay* rule, but  
13 I believe, if I'm not mistaken, that on Professor  
14 Janicke's website, the static is 69 percent of the time  
15 now -- and I see him nodding in the back so I think I  
16 got that right -- 69 percent of the time when a permanent  
17 injunction is asked for and it's granted.

18 So not as automatic. Maybe damages are going to  
19 be lower. We have higher standards of obviousness with  
20 *KSR*; patentable subject matter being restricted with  
21 *Bilski* and other issues where they all fit together and  
22 the incentives that flow from the patent system to  
23 engage in innovation, even more costly commercialization  
24 activities, to follow on from that innovation, to  
25 disclose our inventions as opposed to trying to protect

1       them with trade secrets or other forms of protections.

2               All those incentives are impacted when these  
3       changes are put into place, and I would hate to see us  
4       wake up one day and say we no longer have the  
5       pro-competitive incentives of the patent system because  
6       we've watered it down in so many ways, what did we do  
7       here?

8               So I hope that along with some of these other  
9       issues that are in flux today, that the question of  
10       permanent injunctions as a balanced approach applies in  
11       the future.

12              MS. MICHEL: Gary, how does the ability to  
13       obtain or to get hit with an injunction affect the kinds  
14       of decisions that your company has to make?

15              MR. LOEB: So in connection with my answer, I'm  
16       just going to point out at least three factors that are  
17       relatively unique I think to pharma and the biotech industry  
18       with respect to getting injunctions that I think  
19       ultimately affect where many of the players in pharma  
20       and biotech come out on injunctions.

21              The first is that often there is an eight to ten  
22       year period when a product is in development where under  
23       *Merck v. Integra*, you can't assert your patent against  
24       that product, so we talked -- we heard some this morning  
25       a little bit about the sunk costs of irreversible

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  
6 equity is actually shifting in that process, and the  
7 result will come out differently just because of the  
8 timing of when you can actually bring an infringement  
9 suit. So I think that's one factor that really is  
10 unique to sort of products that are going before the  
11 FDA.

12 Another factor, which is related but not  
13 identical, is that because of the FDA approval process,  
14 it's very difficult to design around late in the  
15 development process because you get an approved  
16 manufacturing process that then has to be scaled up to a  
17 commercial manufacturing process, so the ability to do  
18 late stage design-arounds right before you're about to  
19 launch is very difficult because in many cases it  
20 requires you to restart the whole clinical trial  
21 process. So I think it makes you in that case -- that  
22 factor makes you more easily the victim of something  
23 like a patent hold-up.

24 Then the third factor I think that is not unique  
25 to pharma and biotech but that is certainly consistent

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  
10 think predictability is crucial because when you're  
11 talking about these long-term investments, these  
12 inabilities to shift, you want to have some  
13 predictability about the result, and I think prior to  
14 eBay, there was more predictability, and I think right  
15 now in an eBay world, we're in a period of significant  
16 unpredictability to see how courts are going to apply  
17 these factors in sort of diverse ways.

18           So there are sort of a series of situations that  
19 we don't know exactly how they'll play out, but they  
20 could play out slightly differently in pharma and  
21 biotech than in other industries, so one big factor is  
22 how much does the public health component impact, the  
23 public interest aspect of the injunction analysis.

24           It's actually one area that is just I think a  
25 totally open issue because it wasn't really touched upon

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  
23 to be hit with an injunction affect decision-making?

24 MR. LUFTMAN: Sure. Before I answer the  
25 question, probably for context I'll provide a little

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.

9 And we have -- obviously we've been recognized  
10 through a variety of different public circuits. *Fortune*  
11 *Magazine* has recognized us as a huge innovator in this  
12 space, *Business Week*, *IEEE Magazine* and a variety of  
13 other sources.

14 So with this tradition of innovation, we view  
15 that innovation is critical here, and when dealing with  
16 people that are asserting their patents against us, we  
17 view that the discussions should be one of a very  
18 substantive nature. It should be really two fundamental  
19 questions: Are the patents infringed and is it a valid  
20 patent?

21 The unfortunate thing with injunction prior to  
22 eBay was the discussion really didn't focus on that. It  
23 focused on: How am I going to survive summary judgment?  
24 Am I going to be facing a permanent injunction that's  
25 going to stop shipping a product when, I believe it's

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 that research at American universities has been a  
2 critical source of fundamental scientific discoveries,  
3 as well as practical applications of technology. This  
4 research is a tremendous contributor to economic growth  
5 and job creation. In 2007, nearly \$49 billion was spent  
6 at U.S. universities. That same year, 555 new start-up  
7 companies and thousands of new jobs were created out of  
8 university technology.

9 It's the mission of university tech transfer  
10 offices to encourage private sector investment and  
11 academic research and then to move that research out  
12 into the community where it can benefit the public  
13 health and welfare.

14 The key to commercializing university technology  
15 is patent licensing. Before enactment of the Bayh-Dole  
16 Act in 1980, industry had very little interest in  
17 university research, but after Bayh-Dole, universities  
18 were given statutory authority to patent their  
19 inventions, and they were required to diligently  
20 commercialize them through for profit licensees with a  
21 preference for U.S. businesses and particularly a  
22 preference for small businesses. Since the inception of  
23 Bayh-Dole, these licenses have spawned the creation of  
24 more than 6,000 new businesses.

25 Now, where did patent remedies fit into all

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  
15 of weakened patent remedies available to small biotech  
16 companies is not just less competition and fewer jobs as  
17 a result of difficulties in attracting capital, but also  
18 diminished prospects for developing new biological  
19 treatments for our most confounding unmet medical needs.

20 MS. MICHEL: Thank you. Other thoughts on the  
21 importance of exclusivity and therefore the importance  
22 of an injunction in terms of your company's  
23 decision-making about R&D or about licensing or anything  
24 else? Bob?

25 MR. ARMITAGE: Yeah. I would just like to

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  
21    bankruptcy proceedings or otherwise in order to meet the  
22    requirements of the creditors to the now bankrupt or  
23    defunct entity.

24           The assets are then used in a fashion they were  
25    probably never contemplated to be used. They end up as

1 barely colorable kinds of claims being brought that pass  
2 the scantiest requirements of Rule 11 and are then used  
3 to extort, as one would argue, royalties out of  
4 technology companies.

5 I think again this is a reflection of the  
6 different marketplace that we find ourselves in as  
7 compared to the biotech and pharma industry. I don't  
8 think -- I haven't made any great study of that, but my  
9 guess is that in the market for any one particular drug  
10 or another, you wouldn't find 150 companies that had  
11 once been in that industry and now have NPEs that are  
12 trolling around in the marketplace looking for someone  
13 to use the patents against in a fashion that suggests  
14 perhaps not the best interest or the best goodwill  
15 behind the assertion of those particular patents.

16 So to ultimately to get to the answer to your  
17 question, in the context of an injunction, not having  
18 the threat of an injunction necessarily hanging over  
19 your head from an assertion of a patent by a non-  
20 practicing entity has, certainly, had an effect upon the  
21 negotiation for potential license.

22 I'm not sure it's had the effect that people  
23 necessarily think it would have had in that it's not  
24 like it's taken away a cost all together. The point  
25 I'm trying to make is, because now, instead of simply



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  
12 with a settlement of that particular case.

13 MS. MICHEL: Doug, let's go to you and then to  
14 Barney?

15 MR. LUFTMAN: Sure, so I share Ken's views  
16 regarding that we are definitely in different environments,  
17 and I don't think actually tech is really advocating the  
18 elimination of injunctions. I think you've actually hit  
19 on it precisely, which is there's this dubious  
20 interpretation out there that has been a manipulating  
21 game to attempt to cover one's technology that wasn't  
22 originally intended to cover that technology.

23 And what we're confronted with in the high tech  
24 industry is that in the past there was really no way to  
25 combat it. The company had no revenue. The company had

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.

5 In a post-eBay world, what I think is  
6 interesting, and I agree with Ken, that I think the  
7 expected consequences of the injunction rules being  
8 changed pursuant to the eBay criteria would be -- the  
9 expectation would be that the value of patents have gone  
10 down, that it's cataclysmic, that the market is going to  
11 change, and in fact, we haven't seen that dynamic.  
12 For example, today compared to 2004 --  
13 the number of litigations that we have has doubled.

14 We had in 2004 six pending IP statute suits.  
15 Today we have 15, 14 of which are patent licensing  
16 entities, mostly in the eastern state of Texas as well,  
17 which I'm sure wouldn't surprise the audience.

18 With that, ultimately the injunctive relief  
19 concept I think has really helped the case with regard  
20 to really showing that the dynamics that are afoot are  
21 very much more I should say equitable with regard to  
22 really talking about, Is it valid? Is it infringed? And  
23 really addressing it in that respect.

24 MS. MICHEL: You said there are more suits than  
25 before eBay that you're experiencing. For Ken and Doug,

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  
12 description.

13 We clearly have a requirement that reins in the  
14 patent scope not only for those reasons but for the fact  
15 that there's a non-obviousness requirement that clearly  
16 requires some inventive advance in technology. What  
17 would be a tragedy frankly is a hand-less patent system  
18 when other remedies and other tools might have two  
19 strong hands working together to foster greater  
20 innovation in all areas of technology.

21 The patent system works perhaps differently in  
22 different areas of technology because those requirements  
23 that rein in patents, for example, in the biotech field  
24 have been under-utilized, under applied, in fact by some  
25 of the companies accumulating these vast stores of

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 eBay case.

16 And so, the infringer has not only had his or her  
17 day in court at the district court but on appeal before  
18 they ever face this injunction issue on the permanent  
19 injunctions issue.

20 MS. MICHEL: Barney?

21 MR. CASSIDY: Thank you, Suzanne, and you,  
22 Erika, for inviting me.

23 I want to talk about the other side of the  
24 patent hold-up coin which is the non-infringer hold out.  
25 In connection with the lack of strong injunctive relief

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  
23 units, one of which is quite mature. It was a chip  
24 scale manufacturing company who created devices to allow  
25 the miniaturization of semiconductors in the way that

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  
14 shrinking down cameras and making them very simple and  
15 non-mechanical and yet having intelligent features, so I  
16 saw a demo the other day of a camera about half the size  
17 of a cigarette pack that was wireless and could pick up  
18 things, face detection, red eye detection, that sort of  
19 thing, and the next version of it will be 70 percent  
20 smaller, so it will be like a lapel pin. These are  
21 being used -- these technologies are being used in cell  
22 phones throughout the world.

23 Our basic model is to develop the technology,  
24 productize it, prototype it and license it to others  
25 rather than manufacture it ourselves. We found that we

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, they can  
9 get the patent, but we're working very hard to show that  
10 we can outsmart the rest of the world rather than  
11 outproduce the rest of the world in terms of  
12 manufacturing goods.

13 So, when I look at it from an IP perspective, our  
14 company has a mature side and an infant side that's  
15 trying to break into the market and develop great  
16 products. We would not have bought these four companies  
17 and we won't buy other companies if we can't protect the  
18 intellectual property that comes with them. There is  
19 somewhat a famous story of a gentleman named Lowell,  
20 who Lowell, Massachusetts is today named after, who  
21 visited England in 1811, 1813, and had a photographic  
22 memory, learned all about the textile manufacturing  
23 processes that they use there.

24 He disguised himself as a wealthy tourist, went  
25 around visiting all the factories. He had a

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.

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 So I think that the idea that the hold-out  
25 problem occurs for these minor features of products that



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  
12 started early, before the fullness of understanding of  
13 how to actually put your request for injunction in the  
14 context the way the Supreme Court wrote the *eBay*  
15 decision or not.

16 So because I'm the eternal optimist, I'm  
17 withholding judgment, but in the belief unlike *Festo*,  
18 this can -- there's no reason why the *eBay* decision  
19 can't come to the right landing point.

20 MS. MICHEL: Ken?

21 MR. MASSARONI: To answer the question about 69  
22 percent versus 31 percent, it strikes me as -- I don't  
23 know if Professor Sprigman is still here, but I think he  
24 said this morning there were 81 cases that have been  
25 decided on this point, and so it appears that there's a

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  
9 lifted and it was then basically -- RIM was forced to  
10 settle the case for over \$600 million, and several  
11 months later the patent was held invalid at the patent  
12 office and it's now up on appeal.

13 So, ultimately RIM paid \$600 million for an  
14 invalid patent because an injunction was issued that  
15 ultimately if it hadn't been issued we would still be  
16 talking about the validity of the patent, not that RIM  
17 paid a lot of money for an invalid patent.

18 MS. MICHEL: Kevin?

19 MR. RHODES: Yeah, Suzanne, to come back to your  
20 question, is there hope that the courts can get the --  
21 strike the right balance? I agree it's too soon to tell.  
22 The data is very anecdotal at this point. Like Bob, I'm  
23 an optimist. I think the development of the case law  
24 certainly has a chance to strike the right balance, but  
25 I will say that I too hope that at the end of the day a

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.

18 Related to that is, as most probably know, there  
19 are -- there have been and there continue to be  
20 compulsory licensing efforts ongoing in developing  
21 countries, and we've seen that in the pharma industry,  
22 and it's developing now with so-called green or clean  
23 technology, and to the extent that we start moving more  
24 towards a compulsory license in the U.S., we are  
25 diminishing our moral authority to argue against

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  
25 business model and the importance of the exclusivity or



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. WARE: I was going to say that I think the  
13 courts haven't adequately explained the irreparable  
14 injury prong actually, and I think it's a bit of a  
15 problem, because in every patent litigation, you first  
16 deal with damages before you get to the injunction phase  
17 of the case, and of course the patentee is then putting  
18 on its damages case with very sophisticated economists  
19 who nowadays with computer modeling can create an entire  
20 market, a but-for market. They can analyze the effect  
21 on pricing.

22 I think about, for example, in the pharma area  
23 with the generics, there's so many economists now who  
24 have studied and written about what happens when a  
25 generic enters a market in terms of pricing. So it gets

1 to where it's very hard for anybody to say that damages  
2 can't actually be calculated.

3           They may be -- maybe you can't calculate them  
4 with certainty, but that's true in every area of the  
5 civil law where we have damages, that damages have to be  
6 estimated, but that plaintiff never has to prove them  
7 with certainty.

8           And so what is the implication of that? I think  
9 it's a problem because it may be that if it's a  
10 practicing entity that you actually could calculate the  
11 projected future lost profits including disadvantages  
12 from the loss of first mover, all those kinds of  
13 considerations. If it's a university, you could say,  
14 Well, look, the injury is going to be the loss of the  
15 royalty that they didn't get that they would have  
16 negotiated, and you can calculate that.

17           I have wondered whether if -- someone was joking  
18 about this morning about these four factors, whether  
19 they just needed four somehow, and so they threw this  
20 in. So, I don't think we have an adequate understanding  
21 of what really -- what proof is really required, and it  
22 makes me somewhat uncomfortable because it seems to me  
23 that it then amplifies the discretion that the District  
24 judge has simply to say, Well, you haven't shown that  
25 the injury is irreparable, so I think it creates a lot

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, *et cetera*, there are a lot of  
8 factors that go into play in determining what's  
9 irreparable harm and not.

10 You know if a major enterprise, for example, and  
11 the pharma companies are emblematic of this, loses a  
12 patent or loses exclusivity, even if a patent  
13 simply expires, there's a lot of irreparable harm that  
14 takes place in terms of the ability to do future  
15 research, *et cetera*.

16 So because compensatory damages in patent cases  
17 are designed just to be compensatory and no one offers a  
18 trillion dollars for a patent, my hope is that for  
19 people in an ongoing business, that that business has an  
20 economic impact from allowing someone to come on the  
21 market in a compulsory licensing situation, that it  
22 would be very unusual not to find irreparable harm.

23 There may be the other two factors at the bottom  
24 of the list that come into play, but as you think  
25 through the analysis, if your business is aggregating

1 patents and licensing them systematically so that the  
2 technology represented by those patents could be  
3 commercialized, if you are WARF for example, that  
4 business model is clearly at risk if your licensee is  
5 simply holding out, holding out, holding out. Or if you  
6 can't, for example, license an entire industry, only part of  
7 an industry, or if you can't have an exclusive licensee for  
8 whom you can promise true exclusivity in the  
9 marketplace, knowing that the next person that comes  
10 along who wants to compete with your exclusive licensee  
11 may be able to do so under a compulsory license.

12 MS. MICHEL: Gary?

13 MR. LOEB: I just was going to give sort of a  
14 real world example of the way we would evaluate the sort  
15 of uncertainty with respect to getting injunctions in  
16 the biotech industry, the way it would sort of affect  
17 our development decision, and so I'll play out a little  
18 bit of a hypothetical.

19 I'll try to keep it relatively short but say  
20 that we have a product that is going to treat pancreatic  
21 cancer. It's two years in the lab. It's ten years in  
22 development in clinical trials before it actually gets  
23 approved. So then we essentially have eight years of  
24 patent life on it once the product is actually marketed,  
25 assuming that really the best patent protection is

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  
15 injunction and actually have your full eight years of  
16 life, then you may not do that additional investment.  
17 Those are the types of things that I started  
18 thinking of that hypothetical when we were talking about  
19 irreparable harm.

20           I mean, those are the types of things that,  
21 you can put some sort of value on that, they  
22 could have gotten this much profit from having that  
23 drug approved for lung cancer but ultimately the  
24 irreparable harm is not -- I mean, it's to the company  
25 but it's also to the United States as well because it's

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 write down two definitions of hold-up on the assumption  
2 that it's a generic term like a generic claim, has a  
3 broad scope of possible meanings.

4 So is a hold-up, A, a recreational activity of a  
5 patent troll or is it, B, a legitimate request to  
6 respect a patent made by someone you don't like? Now,  
7 could we get some further clarification as to what you  
8 mean, Suzanne, by hold-up?

9 MS. MICHEL: And it would be nice to find a  
10 term, if anyone has a suggestion, I realize there's a  
11 rather pejorative ring to the term hold-up, but the  
12 concept that the patentee, by making assertion of  
13 infringement after the accused infringer has sunk  
14 substantial cost into the infringing product, and  
15 therefore the amount that the accused infringer might be  
16 willing to pay is driven by the switching cost rather  
17 than the value of that technology compared to non  
18 infringing alternatives at the time of designing the  
19 product.

20 Anyone want to add or take away from that  
21 definition?

22 MR. MASSARONI: I might put a slightly finer  
23 point on that. An assertion of a patent of dubious  
24 quality and prominence often procured years after the  
25 investment in the plant and equipment necessary 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 commitment to a standard setting organization to license  
2 its patent unreasonable and in non-discriminatory terms,  
3 ever be entitled to an injunction.

4 And I realize a lot of you don't operate in this  
5 world and might not have views one way or another, but  
6 for those of you who do, Doug, do you have thoughts  
7 about how the standard setting context in general in a  
8 RAND commitment in particular should play into the  
9 injunction analysis?

10 MR. LUFTMAN: Sure. Obviously we're in the  
11 telecommunication space, so we eat, sleep and breathe  
12 standards based technologies. I'll describe, maybe from  
13 an industry perspective, what the debate seems to be is  
14 it seems to be around what contractual obligation do you  
15 have by agreeing to incorporate your technology  
16 affirmatively into a standard, and should you actually  
17 be able to get an injunction at that point.

18 And I think the unfortunate thing right now is  
19 there is no case law that's out there that is touching  
20 on this definitively. So should there be some type of  
21 obligation to license? I think there should be. I  
22 mean, I think there's a contractual obligation under the  
23 RAND obligation.

24 As to whether an injunction is not available in  
25 all instances, I lean towards saying that the parties

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?

14 I think it's very telling what happens at that  
15 point because if they can do that, then fine. Then the  
16 hardship can really be minimized because you don't have  
17 to take the product off the market. They just have to  
18 take a feature out of the product and maybe that takes a  
19 little time, and a number of courts have entered  
20 injunctions that give some time to do that.

21 On the other hand, if it's something that really  
22 cannot -- there is no design around, there have been  
23 years of litigation, it's gone up to the Federal  
24 Circuit, the defendant has still not designed around,  
25 doesn't have an alternative back-up and isn't able to

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  
21 proceedings on injunctive relief after a jury finding of  
22 validity and infringement of *Amgen's* EPO patents.

23 And Roche's argument was that their EPO -- they  
24 really had two arguments. One was that there was a  
25 health advantage that their EPO product had some

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.  
10 It's the price competition issue that raised huge  
11 alarms, particularly in the bio pharma community, when  
12 those -- not just La Roche made the arguments but that  
13 Judge Young, in the District of Massachusetts intimated  
14 that he agreed with them and would propose to craft an  
15 effective compulsory license in which there would be a  
16 royalty rate, a fairly high royalty rate, but he said he  
17 was prepared to fashion an injunction on terms in which  
18 there would be a royalty rate that I think it was 22  
19 percent, fairly high royalty rate but not confiscatory  
20 or anything.

21           He also was then going to impose upon Roche some  
22 pricing constraints and require them to introduce their  
23 product at an AWP, which is average wholesale price,  
24 which figure is used for Medicare reimbursement, that  
25 was no higher than *Amgen's*.



1           And this led -- this caused a lot of alarm.  
2       I should disclose, I worked on the amicus brief filed by  
3       the biotech industry organization that went after this  
4       proposal. The thrust of that brief was that price  
5       competition is not a public interest that should be  
6       considered under the *eBay* fourth prong, and we emphasize  
7       that for one thing, the public health -- the *eBay* fourth  
8       prong was not an invitation to judges just to sort of  
9       make policy and decide what they think would be the best  
10      public policy or to structure a market or what have you,  
11      but rather the Supreme Court actually said what you  
12      should look at is whether there is harm to the public  
13      interest by the granting of the injunction.

14           And among other things, going down that route of  
15      deciding that price competition is a public interest  
16      seemed to us to be completely contradictory of the  
17      Congress -- of Congress's grant of exclusive rights  
18      because price competition is just the absence of  
19      exclusivity, it's non-exclusivity, and that  
20      was a decision that Congress was entitled to make, and  
21      not judges on an *ad hoc* basis who are dealing with  
22      decision-making on a case by case basis on the basis of  
23      whatever competing economists happen to be appearing  
24      before them and without really the ability to determine  
25      kind of a legislative facts.

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  
5 Federal Circuit on an abuse of discretion standard, so  
6 it was -- so that was a concern. And that's something  
7 that I think -- judges should not be taking into account,  
8 the alleged advantages of price competition.

9           Now, at the end of the day, Judge Young granted  
10 Amgen a permanent injunction and said many of the things  
11 that I've just said. He considered all of this and came  
12 out that way, but what was still troubling about it was  
13 that he actually had a hearing, an evidentiary hearing  
14 in which competing economists did come in, and they  
15 tried to sort of construct for him the whole complicated  
16 Medicare reimbursement scheme.

17           So at the end of the day he concluded that Roche  
18 hadn't really shown that there would be price -- that  
19 there would be cost advantages. There were reasons to  
20 believe that they would not have actually introduced  
21 their product at a lower price, they might have actually  
22 introduced it at a higher price.

23           But the question is: Should that entire subject  
24 matter be one that is opened up in every case? And this  
25 is where to me the eBay case presents the greatest

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  
9 that -- I don't think you get any great concern about  
10 that from universities or bio pharma.

11 I was involved in a case some years ago, the  
12 *Johns Hopkins v. CellPro* case in which CellPro was  
13 an adjudicated willful infringer, but they had the only  
14 FDA approved product. This is a purification method for  
15 purifying stem cells used in bone marrow  
16 transplantation.

17 What we did on the plaintiff's side, on the Johns  
18 Hopkins' side, is we asked for an injunction, but we then  
19 asked Judge McKelvie in the Delaware district court to  
20 stay the injunction until three months after a Johns  
21 Hopkins' licensee was itself able to obtain FDA approval  
22 for its own product, which would thereby protect patient  
23 access to this treatment method.

24 So I think that was a good use of equitable  
25 discretion. It was a good use of crafting an injunction

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  
8 circumstances where exercise of discretion to deny an  
9 injunction is appropriate.

10 I just don't think that the circumstances  
11 include that circumstance in which it is alleged that  
12 the market will benefit from price competition and  
13 thereby deprive the patentee of its exclusive right.

14 MS. MICHEL: Bob?

15 MR. ARMITAGE: Yeah. I just want to -- maybe it  
16 will be nothing more than elaboration on Don's point,  
17 but I look at Don's point as really being only one  
18 point, and it's the public health point, and it's  
19 something that I emphasize internally within Lilly when  
20 we start talking about our patents and the importance of  
21 our patent, to remind people that patents aren't as  
22 important as people's health and well-being, people's  
23 lives, and that indeed there are situations where our  
24 first responsibility ethically and morally is to do  
25 whatever we can do in the circumstances we find

1 ourselves to make sure that life saving medicine gets to  
2 people.

3 Now, the rest of the story, the Erythropoietin  
4 story, probably as interesting as the story that Don  
5 told, as interesting as that story is, because I'm going  
6 to guess that Roche had a chance to license all the EPO  
7 technology from Amgen because Amgen on the public record  
8 I believe has told the story of going once, sometimes  
9 twice to every pharmaceutical company that would talk to  
10 them about helping them out with EPO, getting them the  
11 resources they needed to commercialize that product.

12 They were finally able to find a Japanese beer  
13 maker, Kirin -- are you familiar with Kirin, and then a  
14 little bit later I believe Johnson & Johnson to work  
15 with them to assure that they could have the resources  
16 to get EPO on the market.

17 Everybody else said no because it was too much  
18 risk, and nobody believed that a drug that complicated  
19 could ever be successfully commercialized. That was  
20 conventional wisdom as wrong as it was.

21 If Amgen had had to go to each of those  
22 licensees, including Kirin and J&J and say, Oh, by the  
23 way, we want you to buy into this, we want you to buy  
24 into the cost and the risk, but beware that after we've  
25 been on the market a few years, we will likely face

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  
8 differently than they happen to be configured for me.

9 MS. MICHEL: So if we could chop off your toe  
10 and you could go on living, that should be the remedy  
11 rather than letting you keep the toe?

12 MR. ARMITAGE: My only point is before we just  
13 say there are big things with small parts, we ought to  
14 realize that sometimes one of those small parts is so  
15 critically important, so difficult to live without, that  
16 perhaps we ought to talk about it being the important  
17 thing in whatever size the ultimate commercial or in  
18 this case human embodiment I represent.

19 On the inadvertent part -- and by the way I'm  
20 not going to answer your question, I'm just going to  
21 preface the question a little more for the other  
22 panelists, I hate inadvertent infringement. I just hate  
23 it, and we have a patent group of several dozen patent  
24 lawyers, and part of their responsibility is to avoid  
25 inadvertent infringement, and part of their



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  
15 requirements for patentability.

16           We've seen in the biotech area, for example,  
17 several near misses in the last several years, near  
18 misses on the written description requirement, near  
19 misses on subject matter eligibility for patenting, and  
20 I would submit that if your industry or if your  
21 particular company doesn't look at the patent system as  
22 needing to be in balance, isn't a dedicated rigorous  
23 seeker of patents, and also equally vigilant about  
24 patents that are overly broad or otherwise shouldn't  
25 have issued, you're likely to find yourself getting

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  
8           that the number of patents that are applicable to all  
9           the innovations that we have done over the history of  
10          our industry have resulted in massive amounts of  
11          patented technology that are within our products. So  
12          with that, I think the challenge, and I think this goes  
13          to your original suggestion about the inadvertent  
14          infringer kind of comment, is that in the tech  
15          community, though the tech community wants to avoid  
16          infringement and wants to challenge the dubious patents  
17          and the like, there is not any practical mechanism  
18          because even if you take the study of the 10,000  
19          patents, you're talking about, what, a hundred, 150  
20          people who's job is only to go out, reexamine patents,  
21          write articles and amici, and I don't think any  
22          organization in any industry has 150 people that all  
23          they're doing is challenging the dubious patents out  
24          there.

25          That I think is the practical reality that we're

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 thing to do is to investigate freedom to operate, and  
2 there are going to be other investments that you would  
3 make that are relatively minor and where there are  
4 likely to be non-infringing substitutes even if there is  
5 a problem.

6 Now, I mean if you put it in terms of can we  
7 investigate 10,000 patents in order to get this product  
8 out that we're going to sell for \$100? I see that  
9 as a problem, but there have got to be some aspects of  
10 that product that are really critical and some that  
11 aren't, and it seems to me that you triage.

12 I've been involved -- maybe this is a helpful  
13 analogy. I've been involved when a client decides  
14 they're going to buy another company that has a series  
15 of different products for a billion dollars, and they  
16 spend a lot of time investigating the patents and  
17 figuring out what patent risk there may be, and there  
18 may be hundreds and hundreds of patents that we look at  
19 on all different products because they're investing a  
20 billion dollars and they're putting it at risk.

21 So it seems to me that in every industry, you  
22 have to make -- any business has to make judgments about  
23 how much risk it can take, how much it's investing.  
24 But, I don't think that the answer can be for any  
25 industry that we're not -- that we're simply not going

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, we heard  
22 this morning some commentary about whether it should be  
23 the same as the royalty rate that would have been the  
24 remedy for past infringement. I don't agree with that.  
25 I think that it ought to be something greater than the

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  
2 the licensing stage then.

3 MS. MICHEL: Don?

4 MR. WARE: I was just going to add something on  
5 the royalty, and there's a sort of preliminary --  
6 there's a threshold doctrinal issue, and that is, is  
7 this an award of damages under Section 284, or is it an  
8 exercise of injunctive relief under Section 283? And I  
9 think that it isn't damages. But, if it were damages,  
10 damages are supposed to be purely compensatory. They're  
11 not supposed to have any deterrents.

12 You don't build in punishment. They're just  
13 compensatory, and in the royalty context, they should,  
14 therefore, reflect what in the marketplace would have  
15 been negotiated, no more, no less.

16 Where an adjudicated infringer is asking the  
17 court to allow it to continue in the market as opposed to  
18 the grant of an injunction, it seems to me that that -  
19 that the patent holder there isn't merely entitled to  
20 compensation for that, and indeed one way you could look  
21 at it is you could say that the infringer has a choice  
22 there.

23 The infringer can -- of course they can leave  
24 the market. They could stay in the market and if they  
25 want the damages to be limited to compensatory damages,

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  
11 a true hardship after the initial determination, there  
12 is the presidential review period, very rare I  
13 understand. It's probably akin to the patent  
14 infringement in the pre eBay days, but there is a safety  
15 valve there that could be applied in appropriate cases.

16 MS. MICHEL: Ken?

17 MR. MASSARONI: I would observe that from our  
18 standpoint at least we've seen an uptick in the number  
19 of ITC cases that are coming in our direction, and the  
20 one thing I think about on the parallel case is the  
21 remedy of the ITC is an order barring importation into  
22 the United States of the infringing good, and because  
23 there appears to be at least arguably an easier case to  
24 be made for getting the order in the ITC, it then  
25 becomes, in theory at least, and like you, I have not done

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.

9 MR. RHODES: Yeah, there is no normal collateral  
10 estoppel. Obviously you have the wind at your back  
11 after the ITC, but ITC of course also has the cease and  
12 desist orders that prevent products already imported  
13 from being assimilated in the Untied States, but  
14 certainly the point is that in the ITC, if you establish  
15 infringement in a domestic industry you're entitled to  
16 the exclusion order.

17 The domestic industry is broad. It can be  
18 established by licensing, so the same licensing that  
19 negatively impacts your ability to get an injunction in  
20 district court can be used as a plus in the ITC to  
21 establish the domestic industry.

22 MS. MICHEL: Barney?

23 MR. CASSIDY: I was just going to support and  
24 basically make the same point Kevin did, but again I  
25 don't see that as necessarily a problem. I think these

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           MR. WARE: I was only going to add that of  
2 course the ITC has its own statute and Congress has  
3 decided that that's the order that should be entered by  
4 the ITC. I think we should also keep in mind, before  
5 someone starts suggesting that the ITC judges should now  
6 start applying kind of eBay discretion, these are not  
7 Article III judges, and they have the statutory authority.  
8 It's a very different proceeding.

9           It's a very fast proceeding, and it has some  
10 advantages and disadvantages. I mean, our firm  
11 represented a Chinese biotech company that was sued in  
12 the ITC, and in view of the rapidness of the process and  
13 the risk of an exclusion order, what our client did was  
14 they quickly developed a design around, and then had  
15 that available to them and then attacked the patent in  
16 the ITC and ultimately prevailed invalidating the  
17 patent.

18           But maybe that wasn't such a bad thing, that the  
19 threat of the sort of automatic exclusion order led them  
20 to perhaps innovate and develop a design around.

21           MS. MICHEL: Bob?

22           MR. ARMITAGE: You know, let us hope that this  
23 is a fascinating but academic topic because it will turn  
24 out in practice that generally injunctions are granted  
25 by district court judges and therefore the discrepancy

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?

21 MR. LUFTMAN: So I would say initially the  
22 thinking was possibly, yes. Unfortunately I think what  
23 we're starting to see is the fear obviously of not  
24 putting this into a statute, is that the case law at  
25 least with inducement, *Broadcom v. Qualcomm* is what I'm



1 thinking of, has suggested an adverse inference is  
2 actually going to be able to be taken into account in  
3 the inducement context.

4 My concern right now is that this uncertainty  
5 that is being injected back into this debate through  
6 inducement that is potentially going to bleed back into  
7 willfulness as well, but I guess that's a TBD as to how  
8 that plays out.

9 MS. MICHEL: All right. Ken?

10 MR. MASSARONI: In the aftermath of *Seagate*, my  
11 team got more thank you notes and congratulatory high fives  
12 and the like because I think there was a great deal of  
13 perception that this has changed everything.  
14 Fundamentally, and with the distance of about 18 months  
15 here, it really hasn't changed things quite as much as  
16 people might have thought.

17 I suspect it's still the case that the best defense  
18 to a charge of willfulness is having in your hand a well  
19 reasoned opinion of counsel. Now, we can talk about what  
20 constitutes a well reasoned opinion of counsel - and you  
21 can now get something from inside counsel -- it is probably  
22 much more likely now that will fix the problem for you -  
23 as opposed to relying on outside counsel. But it's not like  
24 the opinion letter is dead, and that was certainly what some  
25 of the commentators were talking about right in the

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 might look at to try and fix the problems, further  
2 assuming you agree that *In re Seagate* hasn't done  
3 everything that it was intended to do.

4 MS. MICHEL: Kevin?

5 MR. RHODES: I largely agree with many of the  
6 comments from Doug and Ken. I think the recent  
7 inducement presumption on opinion letters is an  
8 unfortunate development that I would like to see  
9 remedied. I think that as for the practice of reading  
10 patents, I mean it was always our practice to read  
11 patents. We did do a lot of searching and clearance  
12 before product launches. We still do that.

13 That's not going to go away in terms of assuring  
14 yourself you have a good faith position, separate and  
15 apart from the willfulness issue. We, like a lot of  
16 companies, have a corporate IP policy that says we won't  
17 knowingly infringe the valid enforceable IP rights of  
18 others, so there's still an internal clearance process  
19 that needs to be done.

20 However, it has alleviated the concern about  
21 getting the Cadillac opinion letter from outside counsel  
22 that is going to be used in the litigation and, quite  
23 frankly, is only generated because of its use in the  
24 litigation, not in all cases -- to really generate -- to  
25 govern business behavior.

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  
15          opinion and the waiver question until well after the  
16          claim construction ruling comes down.

17          So if you think about Seagate having this  
18          objective prong, was it objectively reckless to  
19          infringe -- in other words, was it a close case or not,  
20          if you defer the worst of the discovery until after the  
21          *Markman* ruling, at that point the judge has a pretty  
22          good sense of -- and he or she has been given some context  
23          about the case, how close is it.

24          A follow on summary judgment motion can be timed  
25          so there's a chance if not to get judgment on a

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

1       academicians and economists and patent professionals,  
2       only the patent professionals thought the right course  
3       of action was reform rather than outright elimination.

4               MS. MICHEL: Any final thoughts on that because  
5       I think that's a question we could debate for a long  
6       time?

7               All right. Thank you to all of our panelists  
8       for both this afternoon and this morning. It's been a  
9       fascinating discussion, and we very much appreciate your  
10      time.

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CASE TITLE: FTC HEARING ON THE EVOLVING IP MARKETPLACE  
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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.

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