FEDERAL TRADE COMMISSION

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

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

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

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

operation of those markets.

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

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

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

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

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

you get a second chance on the second day.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

So that is an even more significant difference

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

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

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

Moving on, and then by the way, lost market

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

it.

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

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

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

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

first part.

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

Now, there's an additional bit of data on the slide. It says “Grant Rate When Yes,” nine out of nine, so because it's not as many, the word sample size, if that's the right word, I’ll go ahen8Tand then8Todywa00 0uoeo1.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Applause.)

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

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

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

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

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

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

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

rding injunctions in patent cases is

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

Now, this factor, the inadequacy of money

equity in Section 283 of the Act.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Federal Circuit did not doubt that Abbott's

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The defendant, Qualcomm, argued that an

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

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

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

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

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

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

do.

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

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

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

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

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

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

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

restoring traditional equitable standards in patent cases.

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

(Applause.)

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

(Whereupon, a brief recess was taken.)

PANEL 1: CHANGES IN INJUNCTION LAW
MODERATORS:
SUZANNE MICHEL, FTC
ERIKA MEYERS, FTC
PANELISTS:
GEORGE E. BADENOCH, Partner, Kenyon & Kenyon, LLP
JOHN M. GOLDEN, Assistant Professor, University of Texas School of Law
ANNE LAYNE-FARRAR, Director, LECG, LLP
CHRISTINE MEYER, Vice President, NERA Economic Consulting
HENRY SMITH, Professor, Harvard Law School
HENRY SU, Partner, Howrey LLP

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

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

copyrights.

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

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

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

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

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

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

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

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

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

injunctions in particular.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

them, refine them, make them work better.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

remedies.

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

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

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

Then the fourth principle which perhaps most

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

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

I'll argue that courts should err on the side of providing more information in order to allow the government and the public to learn more about how the system is working, and then be able to adjust the rules in response to that information.

could do are.

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

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

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

little bit to tend towards some general goals of optimality.

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

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

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

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

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

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

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

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

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

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

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

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

That's what we're really concerned about.

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

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

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

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

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

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

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

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

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

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

MS. MICHEL: Yes.

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

MS. MICHEL: Yes.

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

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

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

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

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

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

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

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

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

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

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

MS. LAYNE-FARRAR: Right.

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

MS. LAYNE-FARRAR: Right.

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

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

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

point.

MS. MICHEL: George, did you have a comment? Let's go to you because you lived this.

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

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

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

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

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

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

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

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

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

Christine, you had your tent up.

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

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

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

And the market context includes sort of what

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

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

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

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

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

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

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

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

ever be possible.

MS. MICHEL: Henry Smith?

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

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

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

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

inadvertent.

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

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

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

MS. MICHEL: George?

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

together. That really shouldn't happen.

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

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

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

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

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

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

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

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

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

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

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

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

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

John?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

those damages as speculative, okay?

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

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

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

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

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

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

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

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

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

MS. MICHEL: Anne?

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

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

an agreement.

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

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

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

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

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

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

MS. MICHEL: Henry Smith?

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

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

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

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

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

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

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

MS. MICHEL: Christine?

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

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

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

that doesn't solve any problem whatsoever.

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

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

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

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

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

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

MR. GOLDEN: Right.

MS. MICHEL: The four factors generally.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MS. MICHEL: Steve? Then Henry Su.

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

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

going to go.

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

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

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

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

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

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

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

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

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

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

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

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

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

MR. SU: Right.

MS. MICHEL: John?

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

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

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

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

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

But then you could have this kind of market

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

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

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

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

therefore you don't want the debate there.

But I think it could be placed there.

MS. MICHEL: Okay.

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

MS. MICHEL: Chris?

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

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

So you asked about the third and fourth factors. So the third factor I think is a great repository for 2erribsndabho6teI6ink is a great repository for

thing that gives you negotiating leverage.

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

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

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

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

That's I think the potential big departure, and

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

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

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

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

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

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

MS. MICHEL: Okay. John?

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

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

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

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

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

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

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

MS. MICHEL: We will need to wrap up soon, unfortunately, so I want to get your concluding thoughts, and also any thoughts on what to do when the injunction is denied? I don't want to leave that topic

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

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

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

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

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

Then there's the additional point of: Well, what if these parties can actually settle, does that not take care of the competition issue? And I think there we have to be careful because if the hold-up you're talking about really is a serious issue, then you have a situation in which, yes, there's a product that will still come into market if the parties can agree to a royalty, but if it's a per unit royalty or percentage royalty, then you're talking about adding costs and arguably some w rgBBBBBBBBBBBBBBBBBBBBBBBBBBBBBB36.percentage

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

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

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

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

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

MS. MICHEL: George?

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

MS. MICHEL: Yes, please.

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

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

It seems to me that in the typical case, the

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

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

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

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

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

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

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

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

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

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

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

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

(Whereupon, a brief recess was taken.)

PANEL 2: INDUSTRY ROUNDTABLE DISCUSSION.

MODERATORS:

SUZANNE MICHEL, FTC

ERIKA MEYERS, FTC

PANELISTS:

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

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

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

DOUG LUFTMAN, Palm

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

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

DONALD R. WARE, Partner, Foley Hoag, LLP

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

Erika, please take it away.

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

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

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

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

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

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

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

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

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

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

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

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

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

background on Palm I think might be helpful.

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

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

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

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

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

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

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

MS. MICHEL: Don?

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

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

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

So let me begin with universities. We all know

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

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

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

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

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

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

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

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

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

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

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

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

Finally and most tragically, the ultimate result

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

So that's at least the report from the battle

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

MS. MICHEL: Okay. Bob?

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

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

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

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

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

patents in the first instance.

MS. MICHEL: Kevin?

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

MS. MICHEL: Go ahead.

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

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

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

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

the defendants have the opportunity to assert all of the

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

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

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

So we're not talking about mere injunctions based on claims that haven't been construed that

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

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

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

that people seem to have bought into post *eBay*.

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

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

Tessera is a company that has two business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Kevin?

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

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

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

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

you sd Bob talked about, but

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MS. MICHEL: Gary?

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

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

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

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

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

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

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

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

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

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

So what I hope happens is what the Supreme Court

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

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

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

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

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

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

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

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

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

11 whether what's happening here is we're seeing cases that

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

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

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

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

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

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

MS. MICHEL: Doug?

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

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

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

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

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

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

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

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

Lastly, with regard to the patent quality issue,

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

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

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

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

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

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

MS. MICHEL: Okay. Gary?

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

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

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

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

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

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

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

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

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

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

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

MR. RHODES: That's right.

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

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

MS. MICHEL: Okay. Barney?

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

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

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

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

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

How might a court take into account your

the ability to control the licensing terms?

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

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

MS. MICHEL: Don?

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of uncertainty.

MS. MICHEL: Bob?

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

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

So in any economic situation, if there are --

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

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

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

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

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

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

(Whereupon, a brief recess was taken.)

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

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

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

MS. MICHEL: Yeah.

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

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

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

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

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

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

MS. MICHEL: Kevin?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

concerns with respect to uncertainty.

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

So now, I mean --

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

Does that give you any comfort?

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

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

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

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

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

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

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

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

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

Bob?

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

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

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

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

MS. MICHEL: Doug?

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

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

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

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

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

MS. MICHEL: Oh, yes, please.

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

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

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

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

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

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

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

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

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

Our products are so hyper technical and complex

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

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

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

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

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

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

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

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

MR. LUFTMAN: Just real quickly.

MS. MICHEL: Yes.

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

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

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

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

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

MS. MICHEL: Kevin?

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

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

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

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

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

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

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

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

MS. MICHEL: Don?

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

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

MS. MICHEL: Doug?

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

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

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

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

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

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

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

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

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

Don, you raised this point before.

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

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

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

discretion.

MS. MICHEL: Okay. Kevin?

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

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

With respect to the amount of the royalty, if a compulsory royalty is entered by the court, wpropo9e l41.00000 0.

royalty rate for a couple of different reasons.

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

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

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

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

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

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

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

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

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

Any thoughts on that, Doug?

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

MS. MICHEL: Kevin?

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

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

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

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

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

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

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

are different settings for different purposes.

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

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

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

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

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

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

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

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

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

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

aftermath of the case.

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

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

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

There's a host of different things that one

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

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

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

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

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

MS. MICHEL: Bob?

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

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

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DOCKET/FILE NUMBER: PO93900

CASE TITLE: FTC HEARING ON THE EVOLVING IP MARKETPLACE

HEARING DATE: FEBRUARY 12, 2009

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

DATED: FEBRUARY 26, 2009

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DEBRA L. MAHEUX

CERTIFICATION OF PROOFREADER

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

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