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The U.S. has always been a leader in protecting company's ideas. But there are issues that create concern within the industry. There is talk of patent trolls, high litigation costs and poor patents. Whereas years ago the words "intellectual property" brought to mind just copyrights and patents, intellectual property issues now run the gamut. As technology evolves, so do the legal issues surrounding it. So, the *Texas Lawyer* business department brought together these experts in the field to talk about these and other hot-topic issues. The following discussion has been edited for length and style.

MIKE ANDROVETT, moderator, attorney, journalist and owner of Androvett Legal Media and Marketing: . . . *I have asked the panel members to introduce themselves to you. I've asked them just to go maybe a little bit beyond the typical "this is who I am and where I work," to describe more exclusively for you the nature of their work.*

MARK C. NELSON, partner, Sonnenschein Nath & Rosenthal LLP, Dallas. I recently joined the Dallas office of Sonnenschein, Nath & Rosenthal where my practice is primarily focused on patent litigation. I have been there about one month now. Prior to joining Sonnenschein, I was a partner of Patton Boggs and before that was with the Dallas office Jones Day where I began my legal career after graduating law school from the University of Texas in 1995. In sum, I have been litigating patent cases for nearly 15 years, with the occasional copyright or trade secret case thrown in for variety. I also do a little IP strategic counseling and due diligence work (particularly litigation-related due diligence) for certain clients. My practice day-to-day is likely akin to the practice of many litigators, go to court, file and respond to motions, take and defend depositions, work with experts, and try not to get into discovery battles so as to keep costs down.

ERIC S. TAUTFEST, partner, Gruber Hurst Johansen & Hail LLP, Dallas. I head up the IP practice there. I kind of fell into patent litigation. I showed up at

my first job as a young associate, and one of the guys who recruited me to the firm brought me to one of the senior level partner's offices and said, "Let's get Tautfest on this case." And the partner said, "Okay, you want to be on the team?" Of course, as the new guy, I said, "Sure, I want to be on the team." Little did I know it was a patent case for a telecommunications company that had been litigated for about two years at that point and still had about another two years to go before it went to trial. So I was thrown into the deep end from the beginning, but I really loved it. I have patent cases ranging from telecommunications to oil and water emulsification to the technology that goes into the soles of your shoes to vitamin supplements to prison inmate telephone systems, and just all kinds of things. I also enjoy working with inventors and companies that spend a lot of time researching and developing to come up with innovations, and they want to protect that. That's one of the things that really distinguishes us in this country is that we really do protect our intellectual property rights. There are things that give companies technological advantages that give them a competitive edge over others, and they look to us to advise them on how to protect those investments. On a day-to-day basis, I try to understand what my clients' needs are, what their objectives are, and then do my best to advise them on how to get there. . . . We have a very well-defined set of rules that tell us where we're going in a case, but it still is very interesting in every case how differently it goes and how that affects the outcomes. I could go on and on. I love what I do.

STEVEN J. POLLINGER, principal, McKool Smith, Austin: We have roughly a hundred lawyers and all we practice is litigation. We're a litigation boutique. And roughly 75 percent of what we do today is patent litigation, so I guess that is an indication of the growth of intellectual property. I personally have been litigating intellectual property matters for over 15 years now. The bulk of it, at least the last several years, has been patent litigation. But I've also done a number of trademark cases as well as copyright and trade secret cases. I've been involved in a variety of cases in terms of technology from the very

complex software and electronics case involving cell phones, semiconductors and medical devices, such as pacemakers, defibrillators, to simple technology, such as air compressors and flashlights. Last year, I even had a patent case involving a sleeping bag out in East Texas. Recently, the bulk of the cases have definitely been in Texas, in particular in East Texas. I, along with Mike McKool and Sam Baxter, tried what I believe was the second patent case tried to Judge Ward in Marshall in January of 2003. Fortunately, we won that case. And we won it up on appeal. I also had the good fortune of clerking a couple years at the federal circuit for Judge Plager, which hears all appeals in the patent cases. In the last 15 years, since I've been involved in intellectual property litigation, there have been a lot of changes, particularly in the last five years.

MARTY ROSE, partner, Rose•Walker, L.L.P., Dallas: We're a trial boutique. I've been trying lawsuits for 34 years. I have a disclaimer. I am not a patent lawyer. If you want to ask a patent question, ask one of these fine gentlemen here today, not me. I'm a trial lawyer. I used to be with Gardere & Wynne, and we formed Rose-Walker in 1999. We have 18 lawyers, and about 60 percent of our docket is intellectual property work and nearly a hundred percent of my docket is intellectual property work today. To answer the obvious question, when we have a patent case, we joint venture particularly with a patent boutique, but we'll work with anybody to make sure that the patent case is properly prepared, worked up and tried. My focus obviously is the trial of the case rather than the peculiarities of patent law. I've enjoyed it a lot, particularly in the aerospace industry. I got my feet wet in aviation and am sort of known as an aviation lawyer, but that's been a terrific entree into the aerospace field of intellectual property. But it also has given me great experience in trying technical cases, which is all a patent case is, whether it's a piece of software or a military aircraft or a guidance system. Our present docket is primarily in East Texas. The most interesting thing I've got to say about patent work is how we find that the law firms on both coasts see our Eastern District as a badge of honor. And as a plaintiff, we

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MARK C. NELSON,

partner at Sonnenschein Nath & Rosenthal LLP, is a member of firm's patent litigation practice. He has nearly 15 years of experience litigating large, multifaceted patent infringement cases in federal district courts and before the International Trade Commission. Nelson's experience spans a number of diverse technologies, including biotechnology, semiconductor products and the processes used to make such products, telecommunications and networking, satellite communications, electronic circuitry, Internet business methods, computer software, explosives used in automobile airbags, soft drink bottling technology, electric motor technology, automotive speakers, cosmetics, asexually reproduced plants and asynchronous assembly techniques. In addition, he has experience drafting and negotiating IP license agreements, counseling clients on setting up and maintaining IP licensing and/or IP capture programs, performing corporate IP due diligence, opinion work and patent prosecution. He also has handled copyright, trademark and trade secret matters. Nelson teaches IP Litigation as an adjunct professor at Southern Methodist University's Dedman School of Law.

have filed some cases in the Eastern District where we anticipated a venue challenge and found none, only to discover that west and east coast firms really want to be able to tout their docket in the Eastern District of Texas as a badge of honor in the intellectual property field. I'm not certain how we should react to that, but it is an interesting factoid.

THOMAS H. WATKINS, partner, Brown McCarroll L.L.P., Austin: I've been litigating for 44 years now, so I guess that makes me the old man on the panel. I have an undergraduate degree in government, which shows you how well prepared I was to get into intellectual property. So the first jury trial I finished in a patent case, I had to learn how to say whether or not the multicalibration sets were being automatically selected from the raster imaging processor. And I can tell you that my undergraduate degree didn't do me much good in that. Second one, I had to learn how to say whether or not the anhydride compound had been adequately cross-linked with the maleic crossing-linking agent. My undergraduate degree didn't help much there either. My third patent case was about a beer koozie that goes around a beer can. Finally, my education came through. My job as a litigator, and it's been that way whether we're talking about oil and gas cases in the '80s, about Sharpstown in the '70s, about financial disasters in the chip industry in the '90s, is to go to court and litigate and talk to juries. So people who have great substantive knowledge in other areas usually end up coming to me at some point when we're going to go talk to the judge or the jury at the courthouse. So I have a very jaundiced and pragmatic attitude towards patent litigation these days because it is so expensive and difficult and the fights are so much over discovery that it's hard to get to the facts we're really going to try to get the jury to look at. So what I end up doing these days is coming in on a case, usually late in a case when it's about to go to trial, and they want somebody to talk to the jury.

ANDROVETT: . . . *You've given voice to this question already in the description of some of your cases, talking about the soles of your shoes or the sleeping bag and koozie. I'd be interested in knowing what your opinion*

is of what exactly is intellectual property; and is that definition expanding or changing maybe over the last five to 10 years?

ROSE: One of the pieces of intellectual property in a case I'm getting ready to try in Atlanta is whether the sign on the 50-year-old military submarine chasing aircraft that announces that it's the men's bathroom on the aircraft is a trade secret, that's been reasonably protected from disclosure by the manufacturer from the general public. I find it very helpful, since we consider ourselves the plaintiff, to focus on that bathroom sign, but it's been my experience that people are trying to claim intellectual property ownership for all sorts of silly things and whether through the patent process with overly broad, almost generic, patents that try to patent light, air and water to intellectual property that is claimed to be a trade secret that might have been one day, but certainly should not be considered such today.

WATKINS: One of the reasons that is happening is that in discovery when we moved from paper to electronics we are actually killing more trees than we ever did in a paper society. That's because it's hard to take computer and electronics and cram it into a series of rules that were developed on hard copy paper, and that doesn't work. That's why the evidence and discovery rules are so much trouble these days. Same thing happened to intellectual property. We went from sewing machines and ceiling fans that you could touch and feel, and as the computers and electronics came along, intellectual property is in there, but you can't touch it, you can't feel it, you can't see it. So we're having to redefine what intellectual property is in order to give adequate protection to those things that are innovative. But at the same time we're getting patents on business method patents and patenting things that shouldn't be patented.

POLLINGER: If we step back a second on a broader view for folks that aren't as familiar with intellectual property. I define intellectual property broadly as ideas. And then depending on what type of ideas you're talking about, that controls whether you're under the trademark, copyrights, trade secret or patent classification. If we're talking about names, names of businesses,

names of products, goodwill, that's in the trademark realm. If we're talking about literary works, we're talking about music or movies, you're looking at copyrights. And then in terms of patents, utilitarian patents, at least, you're talking about inventions that are useful and fall into one category of the statutory requirements for patents, whether it's a chemical process, a computer method, chemical compounds or a mechanical device. And then trade secrets, as the name implies, has to be secret. If it's not secret, it's not a trade secret. And it's generally a technological idea or a business secret. In terms of the broadening of intellectual property, definitely on the patent side, as these two gentlemen alluded to, the scope of what's being patented has broadened in terms of business method patents. There is some consideration as to whether that should be curtailed now. But the business method area and the boom of information technology has definitely created a big field of intellectual property for both protecting and litigation.

TAUTFEST: Ideas, but also ideas that give a competitive advantage. And to the extent that they give a competitive advantage, they can contribute to the bottom line of the company. So it's very valuable and the work needs to be protected. And one of the challenges for us is to advise our clients on how best to protect those innovations, those ideas, that help them better compete in the marketplace. For example, one of the challenges is in advancing technology. Should that be kept a trade secret or should that be disclosed to the public in the patent application? Well, one of the disadvantages of a patent application is if that patent issues you get 20 years, and then your protection is essentially limited. So you have to consider: is that technology something that's going to be obsolete in 20 years, or in the 5 years it takes now to get a patent, and therefore, you don't go get a patent? Or, is the innovation something for which the competitive advantage will continue on for years and years beyond the span of a patent protection, so you want to keep it as a trade secret? How do you get a copyright to protect software? Are you going to own that software? Are you going to hire somebody to write that for you

and then the person who writes that, a contractor, do they own that intellectual property or do you own it? So there are a lot of ways to protect those intellectual property assets. Our job, before you ever get to the litigation stage, is to advise our clients very early on about what they're doing with their ideas and how best to categorize those in the categories of intellectual property the law provides and provide them the right kind of protection for what they're trying to accomplish.

NELSON: Another area where the definition of intellectual property has expanded is in the biotech arena. Maybe I am particularly sensitive to such expansion because I have a biotech background, but I am noticing that companies are finding novel ways to categorize even naturally occurring things (e.g., DNA sequences or genes) so as to obtain patent protection. For example, patents have been granted for methods of isolating DNA sequences and/or genes, methods for purifying them, methods of using them (i.e., methods for treating certain diseases), and on slight modifications to them. Indeed, many types of things that offer a competitive advantage in some way are now being considered for patent protection. Where such expansion ends is anyone's guess, but I think were are still in the expansion (as opposed to a contraction) period for intellectual property.

ANDROVETT: *I remember last year in the intellectual property roundtable we had a very robust debate about this very issue of whether the discovery of DNA or a genetic marker could be patentable. As we move from the tangible invention that we can see and we can touch to software, the business method and the biotechnology techniques, is our patent system, be it the patent prosecution, the examiners, the courts, Congress, keeping pace? How are we doing in a system that at least in part designed to foster innovation or at least encourage it?*

NELSON: It depends on what we're comparing ourselves to. The U.S. has the most robust patent system in the world. Companies from all over the world choose the United States to enforce their intellectual property rights because we have laws that stick; and we recognize the value of intellectual property. Everybody is familiar with the press bashing China



STEVEN J. POLLINGER,

a principal in the Austin office of McKool Smith, is a litigation attorney who handles patent, trade secret and other intellectual property matters at trial and on appeal in courtrooms across the United States. With more than 15 years of trial experience in state and federal courtrooms, Pollinger provides intellectual property expertise for a wide variety of clients, including telecommunications providers, medical device manufacturers, software companies, and many others. In addition to being a lawyer, Pollinger also holds a masters degree in electrical engineering, which provides his clients with an enhanced perspective in many intellectual property claims. He is a member of the American Intellectual Property Law Association, and has been named to the "Texas Super Lawyers" list. Pollinger is a former federal clerk to the Hon. S. Jay Plager at the U.S. Court of Appeals for the Federal Circuit in Washington, D.C.



MARTY ROSE,

a trial lawyer and founder of Rose•Walker, L.L.P. in Dallas, has won multimillion dollar verdicts and settlements on behalf of his corporate clients, including a patent infringement and theft of trade secrets case against a major energy company. He handles patent, trade secret and trademark cases for businesses in a variety of industries including aerospace, energy, computer software and others. His verdicts have twice made the *National Law Journal's* list of Top 100 verdicts. In 2002, *Texas Lawyer* named Marty a "Go-To lawyer." He also repeatedly has been chosen as a "Texas Super Lawyer," and was named a top business defense lawyer by the *Dallas Business Journal*.

and other countries for having lax enforcement standards — we, in the U.S., do not. So, in one sense I think we're doing pretty well in recognizing the value of intellectual property and protecting it. But there are certainly areas for improvement. Patents get through the Patent and Trademark Office ("PTO") that probably shouldn't have. Certain technology disciplines (e.g., business methods and computing) are not easy for the PTO to examine because the best prior art is not necessarily written in articles or other patents, but rather exists as systems or in products that were on the marketplace prior to the invention. Information on such systems and/or products is very difficult for the PTO to obtain. Thus, in certain technology disciplines, it is very difficult for the PTO to perform a thorough examination because it cannot obtain the best art to compare against the patent application. Other disciplines, for example, the mechanical arts, perhaps get a more thorough examination because the prior art is easier for the PTO to locate. So, certainly in the examination area, we can do better.

WATKINS: I've got to say the justification for the federal government giving a monopoly is not based upon protecting competitive advantage. Competitive advantage is one of the things you have to look at to determine whether or not you're going to grant a patent or whether or not it's valid. But the purpose is to create and to protect innovation. And the theory is federal government comes along and gives a monopoly to somebody for the purpose that otherwise the cost of developing that technology would be too much if you couldn't protect it. So insofar as the current patent system is or is not protecting innovation, is kind of the way the whole thing has to be tested as to whether or not we ought to be doing it. Because the filling station operator who has a great business doesn't have any protectable right in keeping a filling station from opening up across the street and cutting into his competitive advantage. Same thing should be true in all the other areas. Except, as a society, we need to have innovation. And the only thing that will give us innovation is patent protection. So that's the way it has to be measured.

And the question is right now: "Are we protecting innovation or are we hindering innovation by the current patent system?" And that's a close question. The cost of fighting the fights seems to inhibit some people from even going after some innovation. On a whole, my judgment is that we are doing a fairly good job of protecting innovation. There's a huge cost to it in terms of things that go on that don't have anything to do with protecting innovation, but we are protecting it.

ROSE: We've got a software client who has a raging internal debate going on in executive quarters and in the legal department over whether it's even worth trying to patent their software technology. Both in terms of the cost, the time delays, particularly in software, between the time you file your application and actually have a patent issued, you might be on the fourth or fifth generation of that software. And, of course, if it's not embodying the patent design standard, as a non-patent lawyer, it's now a trade secret and not a patent in any event. But how do you really embody the software code adequately in the patent application and then what do you do about your second and third and fourth generation? Is it a trade secret? Probably. But because of those uncertainties, is it worth the effort and the time to seek patent protection? Particularly, when you then, by seeking it, disclose it to the public and it loses trade secret protection.

POLLINGER: When I got into this area back in 1990, software protection was not prevalent in terms of patents. There was a lot of debate as to whether or not that was statutory subject matter that was permitted to be patented under the patent statute. And there was a series of decisions later that made it clear that, yes, indeed it is patentable. I grew up and went to law school in Seattle, Washington, where Microsoft is. And Microsoft in that time frame really didn't have any patents to speak of. And the firm I worked with through law school had a number of their patent lawyers recruited by Microsoft, and Microsoft ramped up their patent department. The answer that Microsoft concluded was, yes, it's very essential to get patent protection for their software and it's worth the investment. Now they're probably one of the largest

application filers for software inventions. It only took them a few times to get hit in a big way in patent cases for them to understand that patent protection for software was critical. If you look at the other forms of protection available, copyright protection is available. But that only relates to the structure, sequence and organization. It's really the specific way you've written the software. You're not going to get much more than that for copyright protection on software. As a patent, with respect to software, it's going to allow you to protect, not the pure idea itself, but pretty dang close. So you're going to get a much broader scope of protection. And the trade secret is maintainable only to the extent that you can safeguard it as a secret. To the extent it's reverse engineerable, whether it's a software application that goes on your PC and someone can decompile it and discover what it does that way or it's on a chip and someone can get the microcode off and reverse engineer it that way, both of which are very doable and feasible, it's no longer a trade secret. Reverse engineering is a proper way to understand a technology. So at the end of the day, there's still a lot of debate going on in the community, but it depends a lot on what side of the equation the debater is on. If they're protecting broad innovations, they're definitely in favor of patent protection. If they're on the receiving end of recent lawsuits and they've got a lot of liability, and they want an expanded area, they're going to come out against it. At the end of the day, what the debate should focus on is the quality of the patents that are coming out of the patent office. And there are steps being taken at the patent office to improve the quality. And there are two avenues of challenge available with respect to a patent, the district court through an invalidity challenge, in the district court litigation, as well as re-examinations, to have the patent reconsidered at the patent office.

TAUTFEST: The debate or analysis seems to be several steps. Because if you have an innovation, can it be protected? And if it can, if it's worth being protected, how do you do that? Is it through copyright? Is it a patent or a trade secret? And I see a lot of times now it's a combination. You have various aspects of the invention.

Some aspects of it may be protected as a trade secret. For some aspects of the invention, you may want to pursue a patent application. Some aspects of the invention are embodied in code, so it can be protected as a copyright. But also you have to consider the question, "What if this invention gives my business competitive advantage over my competitors? If they start using my invention, how can I enforce that protection?" So it's not just can my technology be protected or how it's protected? But then it's also if it is infringed, what is my mechanism to enforce it? And that's also an important part of the analysis when you are trying to figure out how to protect these inventions. From a patent litigator's standpoint it begins at the patent trademark office — the steps that are needed to issue stronger patents. Some people don't like that, but from a patent plaintiff's litigation perspective, stronger patents are better. Right now in the patent litigation context, some of those same rules may be used to make it more difficult to litigate some patents because it might make it easier to find them to be invalid. We're not really seeing that happen right now with the *KSR* opinion. And I'd like to hear what your observations are, but I'm not really seeing that the *KSR* opinion is resulting in more patents being invalidated. But stronger patents coming out of the patent office is probably a good thing in the future.

WATKINS: I can settle cases cheaper since *KSR*. In other words, the patent holder is more worried about the fact that I no longer have to go find a suggestion to combine in order to make something obvious, and that's going to make it easier in front of a jury. And so it diminishes the value of the already issued patents for the suggestion and combined to go away.

TAUTFEST: I think *KSR* is not the only opinion that's having that effect. We've also got *eBay* which is also diminishing the value of it and so forth.

ANDROVETT: *Let's talk about KSR first. Will someone offer for me a quick synopsis of the KSR?*

POLLINGER: *KSR is KSR v. Teleflex.* And it was a case decided by the U.S. Supreme Court and at issue there in terms of technology was an automobile accelerator. . . . It took what was previously a



ERIC S. TAUTFEST,

partner at Gruber Hurst Johansen & Hail LLP, heads the firm's patent litigation practice, but his experience includes numerous patent, trademark and copyright cases. He has represented clients on both the plaintiff and defendant sides of the docket, and has extensive experience with complex business litigation, including class action, misappropriation of trade secrets, breach of contract and other business claims. His industry litigation experience ranges from telecommunications to biotechnology to software, and numerous other technologies. Tautfest earned his J.D. in 2000 from Southern Methodist University School of Law and his B.A. from Brigham Young University in 1996. He is a member of the American Intellectual Property Law Association, the Texas Bar, the Dallas Bar Association, the Eastern District of Texas Bar Association, the Federal Bar Association and the J. Reuben Clark Law Society. He is licensed to practice in Texas, the U.S. District Courts for the Northern, Eastern, Western, and Southern districts of Texas, the Federal Circuit and Fifth Circuit courts of appeals, and the U.S. Supreme Court.



THOMAS H. WATKINS,

partner with Brown McCarroll L.L.P., has practiced full-time litigation for over 43 years. He was invited to be a member of the American College of Trial Lawyers in October 1990 and the American Board of Trial Advocates. He has been listed in the "Best Lawyers in America" for a number of years. He is experienced in handling high profile litigation requiring direct contact with the media, including numerous patent jury trials. Watkins is a graduate of the University of Texas School of Law and the University of Oklahoma (B.A., Government).

mechanical solution to provide for different heights of persons, different lengths in terms of reaching the accelerator. And you combine it with an electronic sensor to have an automated process. So basically you're driving by wire in terms of your gas pedal. And the case came up to the federal circuit with a favorable verdict for the patent owner, and what was challenged was the federal circuit's prior test for obviousness. For an invention to be valid, it has to be both novel and it has to be new, and it has to be nonobvious over what came before, the prior art. And the tests up to that point were what were referred to as TSM. TSM is teaching, suggestion or motivation to combine, so that there had to be something either explicit or implicit in the prior teachings, prior technology, articles, prior devices, that provided a teaching suggestion or motivation to combine the technology. In this case, combine the old sensors and then to combine that with the old mechanical solution for your gas pedal. And that was the test. And the federal circuit had promulgated that test a number of years ago to avoid hindsight, 20/20 analysis with the courts invalidating patents. In response to a lot of criticism that there were bogus patents out there in terms of just obvious stuff, the U.S. Supreme Court held that the federal circuit's requirement of TSM requiring explicit or implicit teaching suggestion or motivation to combine was too rigid. It wasn't flexible enough. And instead, in essence, said, "Hey, if you just look at it and it just looks like it's obvious, it was obvious to try." There were no unpredictable results. That the jury has the power, the courts have the power, and I guess the patent office has the power to declare and find a patent invalid for obviousness.

WATKINS: And let's look how that works. Somebody comes up with a key pad to open your door at your house rather than a key. So you go in and you punch in the buttons and it opens the door. Well, then you get a patent on that. And then somebody says, well, I'll put it on my garage door, so I can punch a key pad and open up the garage door. Well, if you couldn't find in the literature before somebody making a suggestion to combine those two, you pretty well are

stuck if you tried to use that on a garage door. Well, that's silly. We don't need to be able to put patents on that kind of stuff. Now, it could well swing way too far the other way because hindsight is powerful stuff. You absolutely believe in hindsight that I would have thought of that ahead of time? And the question is: Why didn't somebody? If nobody ever put it on a garage door before, isn't that innovative? So you can see the argument, how it's going to go both ways, but I'm very much in favor of eliminating the suggestion to combine, because we did get some silly patents that came out for stuff that just anybody would have thought of. But I don't know how far it's going to go.

AUDIENCE MEMBER: . . . They come to you and say, "Listen, here's a guy that's got a Phillips head screwdriver — it couldn't be simpler. He asserted it for re-examination." How much are you guys going to tell this client in the Eastern District court it going to cost to go all the way through to a decision point in this very simple patent case?

WATKINS: My nuisance value is a million and a half dollars. I will tell somebody that wants to hire me to defend a patent infringement case that is rock solid that it's going to cost them a million and a half dollars to beat that patent. And if they want to do that, that's fine. Or they can go offer some sort of arrangement with the patent holder that's cheaper than that and try to get out of it. But it's mean.

ROSE: I'm going to ask the client a question, like a good psychiatrist would: "Who's my opponent?" And depending on who the law firm is, my bid might start at a different value because some law firms are known to drag discovery out and to make a case as expensive as possible as perhaps their strategy. Although, Judge Ward runs what some people call a rocket docket, if you like trying cases, it's wonderful because it puts pressure on the other side who might not want to try a case. And it does save money. I think that Judge Ward in particular, although he's gotten awful busy the last couple of years, is known to push a case and push a case, and that saves the client money. Tom, I think you're pretty cheap. To give you a number without knowing more of the facts, of course, we can't do. But Tom makes the point very adequately;

it is expensive and is more expensive than it ought to be. Of course, contingent fees are great. Give us a contingent fee case as a plaintiff; we'll do it every day of the week.

NELSON: One of the first things I would do as well is figure out what your client wants. And my question to you as a client would be, "What are your expectations in this lawsuit?" Because of the amount of money spent depends upon the client's expectations. If your expectations are to obtain a hundred million dollar verdict for infringement of that Phillips head screwdriver patent, it's going to be tough to do that at a cheap price because whoever is the defendant on the other side is going to fight like heck.

AUDIENCE MEMBER: I'm talking about if you're the defendant, not the plaintiff. I want to know what you guys are going to charge your client that's getting sued. He's stuck.

NELSON: The questions are still somewhat the same, though. It is what do you think the plaintiff's expectations are? What is the exposure to your company? If all my client did was make Phillips head screwdrivers and they were against a practicing entity and thus faced the threat of a potential injunction, they could go out of business if they lost. In such a situation, the defense would be hard fought as opposed to, for example, a situation where my client's Phillips head screwdriver production was only five percent of the business. While losing in the latter situation is still not good, it would not devastate the company and, therefore, in the second case the client may not want every possible legal theory and angle explored because doing so may not be cost effective. So to give you a straight answer as a defendant, it's pretty tough to do them under a million dollars. Yes, patent cases can be defended for under a million dollars, particularly if the parties are willing to work together on discovery issues (limits on electronic discovery, reasonable requests, etc.), but such cooperation is not the norm. And, although there are a lot of cost alternatives that you can use to be creative to try to lower the cost of a case (i.e., blended rates, success fees, etc.), at the end of the day I agree that patent litigation is expensive.

WATKINS: But one of the things that

has changed in that calculation is the injunction case, in which they're not as sure. The plaintiff is not as sure of getting an injunction as they used to be. So now that it's not automatic and there are some things you have to go through, look what that does to the defendant. If I'm telling them a million and a half dollars, and the plaintiff is not sure he's going to get an injunction, the chance of going in and getting some sort of royalty arrangement is cheaper than trying the case at least for a while, and gives them the assurance that they're going to be able to continue. In other words, the royalty is kind of like a contingent fee. Unless they're selling stuff, they're not going to have to pay anything. That makes it easier for that defendant to settle the case than it used to be. It used to be they came in and they were going to get an absolute injunction; it was bet the whole company and you paid whatever you had to pay and it was awful.

POLLINGER: I would sit down and talk to my client who's the defendant to find out what the case is worth — \$1.5 or \$1 million, certainly that is probably the nuisance defense value. That's about as cheap as you can do it, depending on what the plaintiff's going to do in the case. But first, I'd sit down and find out what is the case worth, how much revenue are we talking about, how important it is to my client. And if it's \$1 million, \$1.5 million is a lot of money. But if you're talking about a half a billion dollars in annual revenue, it's nothing. But on the other hand, if the company is only selling \$50,000 of these widgets a year, then that's something you want to know right away as well. And that's when you need to start educating the plaintiff and engaging the plaintiff and say, "Hey, you guys are foolish — if you guys have this on an hourly basis, well, then I want to get your client in the room as well." So we can educate the client who's paying the bills for pursuing a bucket revenue of \$50,000 a year. If it's a contingent case that the plaintiff has on a contingent basis, I want to educate the plaintiff's lawyer to let them know that, hey, they're going to invest their time and if they're on hook for expenses in terms of discovery, in terms of experts, they're pouring a lot of money down the drain when there's really nothing to be had at



MIKE ANDROVETT

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the end of the day. So if at the end of the day, it may be worth fighting over. A five million dollar defense is a lot of money, but it's worth it if there's a lot at stake. And as a defendant if you make a practice of just paying out on every case, yeah, it may work for one or two isolated instances, but if you do that on a regular basis, you're going to have that reputation and you're going to see a lot more of these lawsuits coming your way.

NELSON: I don't know where I read this, but there was a study done quite awhile ago on Wal-Mart versus K-Mart. This is probably 15, 20 years ago now. But Wal-Mart, I think, used to have a strategy that they would litigate every slip and fall to the end of the earth, whereas K-Mart settled them. And

there was a survey done that K-Mart was 100 times more likely to be sued for a slip and fall than was Wal-Mart, simply because plaintiff's attorneys knew that they would have to spend all their contingency capital to get anything from Wal-Mart.

Steve makes a good point, that as a defendant, it's a tough choice — whether you can settle something cheap — by cheap, I mean nuisance value to avoid a potentially large verdict, or fight the good fight. Settling is fine and good (and many times makes the most business sense), but if a defendant company gets a reputation for settling, that company starts attracting patent infringement suits like flies.

WATKINS: One of the things you have to pay attention to is to make sure you're not walking into a divorce. A whole lot of patent cases are really family law cases. That is, you got two engineers that have been fighting with each other for years and years or you got that they used to work together, which is even worse. And the child in the divorce case is the idea, and they're fighting over custody of the idea. And I mean they are emotionally invested in that idea and it's their idea. And it's not that other guy's idea. And they're willing to spend till the end of the earth in order to protect their child. And if you

get one of those, you need to up that estimate of a million and a half to more because the emotional level is amazing. It's as bad as a bad divorce case. It's really striking. And it's hard to tell sometimes. You really need to find out before you get in it if you're really dealing with one of those kinds of cases.

ANDROVETT: *A lot of the cost in patent litigation is discovery. Can any of you offer any direction, guidance or steps you can take to minimize some of those costs?*

TAUTFEST: I've got a case right now in front of Judge Ward. He actually requires the parties now to submit a proposed order on how electronic information will be searched for. For this particular client, it has been a very extensive venture for them because we've

had to have people come in and look at their

entire computer network system and search their e-mails and e-mail custodians. It's important for us to advise our clients on an ongoing basis that they maintain their networks, that they maintain their archives and that they

know where things are. So that with the new discovery rules and what some of the judges are requiring now, that they are prepared to be able to find the relevant documents.

ROSE: If your opponent is a good, responsible law firm and is a lawyer who is trying to keep cost down, which is a goal we should all be following, working out an agreed order is terrific. We had a software client who literally had at least seven terabytes of data. Don't ask me to quantify that, do the math. It's a whole damn lot of data. And we were able to negotiate with the plaintiff, who was a start-up software company an effective agreed order limiting production. It still cost our client several millions of dollars to get the search engine in place to solve the problem, but we solved the problem a lot cheaper than we had anticipated. On the other hand, I've got a case with a West Coast law firm who is doing everything in their power to make it as expensive as possible and re-



fuses any kind of reasonable limitations. And it's costing their client as much as it's costing our client. They're both behemoth corporations, but it's ridiculous. And in this particular case, we don't have a judge like Judge Ward who would already have one of these fellows in jail, which would be my preference. And it may happen, I'm working on it. But we have a judge who is sort of easy going on discovery and requires a lot of convincing that someone is acting in bad faith. So one of the requirements is that both sides act in good faith. And if they do, we can try to tame the monster, which are the new e-discovery rules.

WATKINS: The new e-discovery rules were generated by exactly this problem. Well, we got a problem. Judge Sparks in Austin is fond of saying the reason we had to change electronic discovery and put it in the condition it's in now is because lawyers were not acting in good faith. They were not trying to reduce the costs. There were many lawyers, plaintiffs particularly, who thought that the merits of the patent doesn't matter. If we cost it enough, if we make it difficult enough, if we make it painful enough and drag it out long enough, we can get money regardless of the merits of the patent. That's not the way the system is supposed to work. So as Judge Sparks put it, we changed the federal rules on discovery and put in a system which is wholly dependent upon the good

"At the end of the day, what the debate should focus on is the quality of the patents that are coming out of the patent office."

— Steven J. Pollinger

faith of the lawyers. And that is you sit down in the face to face and you seriously try to work out a series of search terms and you seriously try to define what areas of electronic discovery you're going to do. So using a rule that depends on good faith to solve a problem of no good faith, didn't make much sense to Judge Sparks, so he has his own remedies, as does Judge Ward, in terms of lawyers who do misbehave, but it's very painful. Sometimes, and I won't mention which judges, they kind of believe in a foxhole mentality, that if he makes it tough enough on you, both the plaintiff and defendant, the two lawyers will bond with each other like they're in a foxhole, both of them trying to survive, and we'll get something workable because we don't want to go back in there again.

POLLINGER: The cost of discovery, it really is dependent upon who you're litigating with. It really takes two to tango in terms of escalating it to where the cost of discovery is overwhelming the litigation or making it very manageable. This is by no way unique to patent litigation. . . . In my mind, there are two solutions to the escalation of discovery costs. One is to have a judge like Judge Ward or a Judge Sparks who's going to put constricting parameters on what you can do in terms of the amount of discovery you can have, whether it's electronic discovery, written discovery or depositions. It's going to put

a clamp down and limit it to a reasonable amount of time and a reasonable quantity. The other way is cooperative agreements with the other side. And if you've got professional, reasonable counsel on the other side, they will generally want to cooperate with you, particularly if the two entities that are litigating are similarly sized so they both face the same burden. For example, you can have each side identify ten employees and they're going to want to have those ten employees search their electronic archives or e-mail boxes and their hard drives for certain documents according to a dozen key terms that are identified by either side. So you'd come up with an agreement where it's not going to be the eight terabytes, and then you're going to have to somehow figure out a way to prove that for privilege and work product and relevance, which can be unmanageable. By the end of the day, it's really either up to the courts to put limits or the parties to agree on limits.

NELSON: Where I see the biggest problems are where the plaintiff and defendant are disparate size, particularly where a non-practicing entity is suing a large company or group of companies. In such situations, plaintiff's production often consists of little more than the file history of the patent and a handful of documents. If opposing counsel's modus operandi is to drive up defense costs, it's very difficult to deal with because of the

disparate burdens born by the parties in these situations. The new discovery rules help, however, by providing a mechanism for arguing against production and/or for cost sharing or shifting. Even in the above scenario, plaintiff's counsel may be somewhat reasonable because the burden to examine a large amount of documents is a heavy one as well. Being prepared is thus vitally important to reducing costs. Every dollar spent learning the client's systems, finding out what legacy systems (i.e., outdated systems that still have information but have been decommissioned so to speak) exist and generally what is on those systems, and learning the key players, and so on will save many dollars down the road. Knowing all of this information in advance makes it more likely that the Rule 16 conference and scheduling conference may be productive and result in some meaningful agreements regarding the scope of electronic discovery and thus save your client money. Another thing that helps cut down costs is being in a jurisdiction where the judges take a stand on discovery and are active in helping to manage the case. Timely judicial action at the beginning of a case when disputes are just beginning can go a long way toward ensuring that the parties cooperate. Conversely, jurisdictions that let discovery dispute fester for months on end often end up with additional disputes because neither party knows where they stand and



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thus continue status quo with their behavior until the court intervenes. Lastly, if the parties' respective discovery burdens are more or less equal, costs may be reduced because neither party wants to risk an all out discovery war. In closing on this issue, the electronic discovery rules help a great deal because parties now have a method by which to argue and which to try to shift the costs or otherwise more properly balance the discovery burdens in a case.

ANDROVETT: *Marty, you've had cases in the Eastern District where it appears to you that the east coast firms and west coast firms have seen instances where you really don't want to be chased down that venue. They'd rather stay in there and build their reputation as practicing in the Eastern District. I dare say everybody on the panel, and probably most people in this room, know the story of the Eastern District. But for those who may not, can you talk a little bit about the Eastern District. And one of those back stories is that because of the "popularity" in the Eastern District and the rocket docket things maybe are not moving as quickly as they were?*

ROSE: An interesting side to that, and I can tell you the story is true because over cocktails, the lawyer admitted to me that they did not press a change of venue effort, which I thought was a pretty ex-

traordinary admission. But other federal judges are also envious of the Eastern District and the fact that they're getting to handle interesting patent cases instead of criminal drug cases, day in and day out. And there are a number of federal judges who are trying to get involved; trying to encourage the bar to file in their districts. And of course, the tension there for the plaintiff's lawyer is, well, if I get Judge A, great. But if I get Judge B, not so great. And so one of the things that's made the Eastern District a magnet for IP litigation is the general consensus that all the judges in the Eastern District, regardless of which one you choose, have an affinity for patent work, want to do it and have experience in it. Now, Judge Shell up in Sherman doesn't do a lot of patent work and is thought to be conservative. But he also is expressing a stronger interest in being involved in patent work. One of the suggestions that's floating around is for the districts to actually designate a patent panel of judges, those who either have the affinity or the interest or the time and have if you will, a sub-filing system where if it's going to be a patent case one of the judges who has got a background in patent or is committed to learn the system will be among those possibly chosen for the case. That would be terrific. I would love to see the Dallas Division, for exam-

ple, have a growing and prosperous patent practice. It would help the overload in the Eastern District and it would help reduce costs to clients.

WATKINS: We've changed from the days where the rumor was there were a number of federal district judges who set all patent cases for the year after they were going to retire. Of course, each of the districts of Texas is moving closer, and a lot of them have, of adopting the same rules that the Eastern District does. My disappointment is that I didn't have enough sense to buy a high-end bar in Marshall, Texas, about five years ago.

POLLINGER: So a history on the Eastern District of Texas, in terms of patent cases, was probably pioneered in a sense by Texas Instruments in the late '90s, when they actually had some facilities located in the Eastern District of Texas, and so it had a strong basis for maintaining venue out there. Then with the judges, starting in 2000 with Judge Ward in particular, given that they do not have a heavy docket of drug cases and they have the time to address these complex and interesting cases, the Eastern District of Texas judges were receptive to hearing these cases. And what's developed out there is really great for all of us here and for everybody in the U.S. in terms of patent jurisprudence. It's a great forum of expertise in terms of patent cases. If you go to most places in the country, the first thing a judge wants to do is figure out how the judge can put that patent case on the very back of their docket and delay it as much as possible. Where out there, the judges are very interested in hearing the cases. Today, given the number of cases they've heard in the past and are hearing on a regular basis, they know the law in this area, left and right, they know the procedure. For example, a big part of patent cases is the so-called *Markman* hearing, where you decide on what the words in the patent mean, the claim construction. The judges there have held so many of these claim construction hearings that they know the law. If you have a *Markman* hearing out there, you shouldn't spend a lot of time discussing the general case law and you shouldn't spend a bunch of time in your briefs on the case law either. The judges out there have started hiring technically

trained law clerks because so much of their docket is patent cases. Technically trained law clerks that have either a mechanical engineering degree, a electrical engineering degree or even PhDs in some biotech area, that are going there from all these great schools across the country. So you've got a huge amount of expertise out there, probably some of the best expertise you have anywhere in the country. In some ways it's no longer the rocket docket because there's so many cases that are filed out there. And I would say perhaps the better name for it today, rather than rocket docket is a "smart docket" in that they have so much expertise in patent cases. And the so-called fear that it's just a plaintiff's haven does not play out in reality. If you look at the verdicts out there, for the most part, the verdicts have been very moderate. Another benchmark to look at is the reversal rate. . . . But if you look at the reversal rate coming out of the Eastern District of Texas, it's got one of the lowest reversal rates of any district court in the nation, which is a strong indication that what they're doing out there is they're doing it right. And that's why it's such a popular forum. And hopefully, Congress's proposed venue reform and pending judicial decisions do not shut that down. Because what we'd see then is people filing suit in the already crowded dockets, the major cities, the L.A.s of the world, and we would have our patent cases take even longer to get to trial. And more than likely, it would be in a forum that does not have anywhere near the expertise that we see out in East Texas.

WATKINS: I had a *Markman* hearing outside of the Eastern District that took four and a half days. I had a *Markman* hearing in the Eastern District last month that took 45 minutes, that's a difference.

TAUTFEST: Yes, generally, you get a about a three-hour *Markman* hearing and then you have to decide which terms you're going to discuss and which ones you won't. I've got a case out in the Eastern District. I'm not sure the rocket docket is the appropriate description anymore. It was filed in October of 2006. We waited a year for the scheduling conference. And our *Markman* hearing in that case is not set until the end of this May. So it's slowing down out there. I know that

Judge Ward, for example, has a separate docket just of patent cases, separate from his other commercial cases that are on a much slower schedule. If you looked at the CNS reports that come out every day about the cases that are filed out there, the patent filings are way down. And I was talking to one of Judge Ward's former clerks, and their thought up there is sort of a pendulum swinging the other way. They've had so many cases out there people wanted to get in. The reputation of great jury verdicts, whether that's actually true or not, but that there was a flood of them. But now, it's taking so long to get to trial that people are less inclined to file there. Some of it might also be speculation of patent reform. Maybe there aren't quite as many cases being filed. But in any case, it's slowing down.

NELSON: Just a couple of quick points on the Eastern District. Although I am one of the youngest members of the panel, in terms of Eastern District of Texas patent litigation practice I am one of the elder statesman. I was one of a team of lawyers that represented Texas Instruments in patent litigation in the Eastern District beginning in 1995. As alluded to earlier, TI's success was one of the springboards that launched the district's patent litigation docket. One of the key factors of the Eastern District that has not been specifically addressed is that the Eastern District is composed of numerous single judge districts — a plaintiff knows which judge it will draw.

And there are also a lot of very good judges out there. And the suggestion about the Northern District or maybe the Southern District having a group of selected judges so you can control the draw a little bit might help drive a few more cases to these other Texas districts. But the other thing about the Eastern District, which is still true, but maybe to a little lesser extent than it used to be, is that it is fast. There's an old saying that justice delayed is justice denied.

It used to be in '96, '97, '98, if you filed out in the Eastern District, you pretty much were going to get to trial within a year of that claim being filed. And it was very likely also that you could hold venue, which was much different than, for example, the Eastern District of Virginia, which was also fast, but difficult to hold venue. I remember the *Texas Instruments v. Hyundai* case, which was tried in the Eastern District in, I believe, 1998. There, Hyundai filed four or five motions for extension as the trial date approached, and each motion was denied. Judges in the Eastern District set the schedule and hold the parties to it, which, as a plaintiff, gives you peace of mind. While the overall speed of the docket has slipped a little, the judges of the Eastern District still hold the parties to the schedule. This certainty helps control costs, creates leverage in negotiations, and generally is, in my opinion, beneficial. As all the lawyers and clients in this room know, the work expands to fill whatever time is that's allotted. So one way to control cost is to just to get the thing done. The Eastern District is also trying to speed its docket back up. Judge Ward, for example, issues interim orders starting the patent rules clocks ticking even before the scheduling conference. Because the scheduling conferences were a lot of times more than a year now after the filing dates, but in a lot of the cases, the judges are starting the patent rules disclosure requirements well in advance of

that. So by the time the scheduling conference is happening, the case has moved forward, whereas before, they were just sitting there. Whether that will be enough ultimately to speed up the docket I don't know.

ANDROVETT: Tom, you had mentioned just in passing the availability of injunction in the old days where if a patent holder could show willful infringement they could count on getting an injunction. It would stop somebody from using your patent, stop their

"It's important for us to advise our clients on an ongoing basis that they maintain their networks, that they maintain their archives and that they know where things are."

— Eric S. Tautfest

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business, and it's quite a leap for a plaintiff. You were referring to the eBay case, which the injunction became less available. Could you talk a little bit about that? And in its wake, what the rules seem to be in regards to injunction of willful infringement?

WATKINS: I don't know that the law was as certain before the eBay case as most federal district judges thought it was. But it was almost automatic. And it wasn't just willfulness. If you got through and they found infringement, you were going to get an injunction. And that made the defendant really scared about what was going to happen. What eBay does is it comes along and says patent injunctions are just like every other injunction. In other words, you got a four-part test that you got to go through, irreparable harm, adequate remedy, all that stuff that you have to do. Now that's probably good in the long run because it does push us into what I call the alternative universe of reasonable royalty. In the '70s, I got out of personal injury because pain and suffering was too amorphous for me to be able to live with and moved into oil and gas litigation, which then I found out the recoverable reserves was even more amorphous than pain and suffering. And then moved into patent law, where I find out that reasonable royalty just put pain and suffering to shame in terms of how many times you can get experts to testify about what the difference is. . . . So we're going to create this alternative universe and play like these two people like each other and that they would do business with each other. Now, what happens when we do away with the injunction is that the judges are then going to be forcing people more and more into remedies which have to do with damages, royalties and that sort of thing, as they kind of loosen up on the injunction as being an alternative basis. But it really does weaken the negotiating power of the plaintiff if they're not as sure they're going to get an

injunction as they used to be.

TAUTFEST: Under eBay, you still had to have the four factors to get an injunction, but what was happening is that under patent law the patent gives the patentee the right to exclude others from practicing these inventions, so if an infringement was found, then it was just presumed that the only way to preserve that right to exclude others was to propose an injunction. In eBay, the Supreme Court said, "Well, no, that's not right." We still have to show that there's irreparable harm, which that's what the presumption was, is that if I can't have my right to exclude others from practicing my invention, that is irreparable harm, and therefore, I get an injunction. Now, the Supreme Court says, "No, that's not the case."

WATKINS: My own speculation is that the increase in patent trolls really got into people trying to figure out how we could have remedies for people who are really doing business that would not be available to patent trolls. And that the injunction is one of the things that might be a dividing line between the two kinds of plaintiffs. . . . Most district judges that I've been in front of have a whole different attitude towards a plaintiff who's selling a product whose business is being interrupted by patent infringement and they're suffering actual monetary losses because of patent infringement versus somebody who has bought a patent, come in and all they're trying to do is enforce it in order to make money out of the patent. Can you argue that the injunction is the difference between those two kinds of plaintiffs makes a bigger difference? The patent troll loses more ground with the loss of the automatic injunctions than the business person who's really trying to do business.

POLLINGER: That's definitely true. What we're seeing in case law is that if you're a so-called patent troll, that is, a patent holding entity that does not practice the patent — and that's what people would

generally say, not that I would necessarily agree with that. But if you're a nonpracticing patent holder, it's going to be tough for you to get an injunction today. On the other hand, if you're a practicing company that's selling products that are covered by your patent, generally, you're still going to qualify for an injunction after the eBay decision. The one area where there's perhaps an exception here is if you're a university. And if you're a university, your business, if you call it a business, is one of ideas. And if you want to protect your ideas to get additional research money into the organization, you're applying for patents and you have to license your patents or you have to enforce your patents. And recently, there was a case in Tyler, in East Texas, before Judge Davis involving an Australian university. And there, the district courts granted an injunction, recognizing in essence a university exception. If you are a nonpracticing entity you may be able to couch it that you're really like a university. You're in the business of developing ideas and you're passing on that know-how to the industry. And for you to be able to continue to do that and until you have the revenue to do that, you need the injunction; otherwise, you're going to face irreparable harm and you qualify for the four-part traditional injunction test.

NELSON: These decisions go back to the Supreme Court decision on eBay itself, where it was a unanimous decision. Interestingly, however, the two concurring opinions in eBay reveal that the different groups of judges supported the decision for completely different reasons. And it used to be patent infringement was analogous to a land route. On the one hand, Judge Robert's group reverted back to 100 plus year old precedent and basically said treat patent cases just like any other case. The other group of judges, however, specifically pointed out the purported use of the threat of an injunction by nonpracticing entities to extract larger and larger royalties by having a patent that controlled a very small portion of a very large expensive thing, and then trying to use an injunction to stop the sale of that large thing as leverage to extract a settlement far more than the patent maybe itself was worth. The Supreme Court also seemingly threw out the old land-grab

"[O]ne of the requirements is that both sides act in good faith. And if they do, we can try to tame the monster, which are the new e-discovery rules."

— Marty Rose



analogy — that is, patent infringement used to be analogized someone squatting on you land (i.e., as defined by the patent's claims) and, therefore, irreparable harm was presumed — the Court in *eBay*, however, seemingly rejected that line of reasoning. At present, I am only aware of two cases granting an injunction to a non-practicing entity since *eBay*. The first case *CISRO* involved a university and irreparable harm was found based, among other things, on the university's lack of ability to attract the best and brightest minds. The second case involved a situation where the patent holding entity had a U.S. subsidiary that did practice the patent. What we're going to see is a lot of creativity on plaintiff's parts to try to couch themselves as practicing entities, whether to give themselves the university type exception or whether to come up with license deals or attempts to go into business or other things, so that they can try to move themselves out of the troll scenario which has gotten so much negative press and negative publicity. Because whoever said it earlier is right; judges are not responding very well to non-practicing entities these days. . . .

ROSE: There's a new bent to this, that some of you might not be aware of. There is a venture capital group, at least one that I'm very well aware of, called Altitude

Capital Partners, who's business model is to invest in patent trolls. And they will finance the litigation, which gets to the cost issue. You've now got a start-up company, but they've got deep pockets and they will go after your patent. They particularly like the loose, broad, general patents to pursue. But they go one step further. To fight the negative inference of patent trolls, they'll actually finance the start-up's business to make it look like they're a legitimate contender trying to compete with Goliath. Their strategy is to overcome the negative connotation and obtain the injunctive hurdle they're looking for. So the way this permutation, which is a dangerous one, is, there are now people who will invest in that troll, try to dress up that pig, as they say, and finance it, and then go after your established client with very deep pockets. And with that development the injunctive threat that appeared not to be there any longer in the patent arena appears.

TAUTFEST: I don't know if you can

say it's a trend yet, but to the extent that *eBay* has reduced the value of licensing or the threat that a plaintiff has, there are a couple of cases that the federal circuit has actually weighed in on this year and last year in imposing a future royalty on the infringer. And that's interesting because now you do have a threat as a plaintiff against a defendant. These cases say that even if I can't get an injunction against you, if the jury finds that you've infringed and they impose a royalty rate, the judge may well impose an ongoing royalty case in the future, and the federal circuit has come back and affirmed that. The plaintiff appealed in the first case — it was a case in the Eastern District. The court imposed a future royalty, but the plaintiff said, "Well, wait a minute. We want to negotiate our own rate." The judge imposed the same royalty rate going forward that the jury had found in their verdict. And the plaintiffs said, "No, Judge, we don't think you can do that because Section 283 just gives you the right to prevent violation of rights secured by the patent and not the right to impose a royalty for those violations." The federal circuit said, "No, we disagree. We think that the court can do that, but we think that the court ought to let the parties try to negotiate a rate before the court steps in and sets one." And the federal circuit said that not necessarily should the rate that's imposed by the jury be adopted

because it may very well be a higher rate that would be appropriate. Because

"[T]he question is right now: Are we protecting innovation or are we hindering innovation by the current patent system? And that's a close question."

— Thomas H. Watkins

now you've spent the money to go to trial, the uncertainty and risk associated with the trial and the jury verdict is now gone. The defendant has been adjudicated an infringer and so it may well justify a higher rate. So to the extent that

you can't get an injunction going forward and that may have weakened your case as a plaintiff, there may be some new strength for Plaintiffs in these two cases that have come out in the federal circuit on royalty.

INTELLECTUAL PROPERTY



ANDROVETT: . . . *What strikes me when I look at patent litigation is the preexisting relationships that exist between the plaintiff and the defendant. In some cases, there have even been previous licensing agreements. It seems like there have been some recent court decisions that change the dynamics of these licensing agreements. . . . Is the dynamic of licensing changing and are these cases what we should be looking towards in that realm?*

POLLINGER: Yes. There are recent decisions that have changed the dynamics of licensing significantly. And the two key cases, one Supreme Court case from last year, the *MedImmune* case, and the other is a follow-on case from the federal circuit applying the *MedImmune* case, the *SanDisk* case. The *MedImmune* case is relevant from the procedural standpoint of how do you initiate the license negotiation. You're really not interested in litigation; what you're really interested is licensing your patents to others who can make use of it and you can get some revenue out of it. In the past, under the federal circuit law, you could send a letter saying, "Hey, you've got a product and we believe it infringes this patent. We are interested in talking to you about licensing it." In the past you could start the clock running for damages and because you set it in the context of licensing, and not a threat of litigation, you could avoid having the recipient of this letter run off and file a declaratory judgment action against you in an unfavorable form, generally, in their backyard. Well, the *MedImmune* decision changed all

that. It basically said if you identify a patent and a product, and you say those two things in the same paragraph, "patent and specific product," the recipient of that letter now has a basis to file a declaratory judgment action against you in the district court of their choice, which, again, is usually going to be in their backyard. So it opens up the realm in licensing where licensors who want to license their patent, they will shoot first and ask questions later. They'll file suit first so that they have a forum that they think is right for them in terms of district court. And then they'll initiate the licensing. So that presents a real unfortunate occurrence because it fosters litigation and discourages licensing negotiations. There's one way you can try to get around that. And that is, before you even mention patent in the same paragraph as a particular product, you say, "Hey, we've got a number of patents that we think you'd be interested in looking at and interested in licensing if you sign this negotiation agreement with us." That basically sets the parameters for the negotiation and says that you will agree to have these negotiations only if as a condition to that you won't run off and file a declaratory judgment action.

WATKINS: This is one of those things where I thought we had a bright line, and now we've got a slippery slope. Because I'm scared to death to send out a letter that says, "You and I are in the same business. Maybe we ought to talk." Where are they going to draw the line as to when it's really something that's going to create a

declaratory judgment action. And that really does scare me.

ROSE: My prospective is a bit different from both of you. I've had clients who have not followed my advice to set the venue and file suit first, offer to dance later. And in fact, they did it because they believed they had a valuable relationship with their competitor due to executive moves and friendships over the years. They thought they could negotiate a deal without filing the lawsuit, which they felt was too aggressive a posture. There are three instances that come to mind immediately, one which I'm still litigating, where a dear, trusted friend was their opponent and gave them assurances that, by God, they would negotiate. Then they turned around and filed suit in their backyard and said, "Sorry, really didn't understand we had that deal." So the client lost the advantage of setting the venue in a place that was good for them. Because obviously, if you are competitors and you believe you have technology that the other guy would like to license, if that's not an invitation for a dispute, I don't know what is. So although I understand Steve's view, my advice to clients is, file suit first, offer to kiss and make up later. It doesn't cost very much to file a lawsuit, and you can at least control the rest of the process if the other side decides not to cooperate.

POLLINGER: I tend to agree with both of their comments that, if you're talking about an entity that only has one patent. If you send out a letter and you can in-

vite talks, well, that's pretty much telling them that you think that patent applies to their current products. And that will create a real risk of creating subject matter jurisdiction for a declaratory judgment action. It certainly has some risks. On the other hand, if you're a company that has hundreds of patents and you're interested in talking cross-licensing and you've tried to enter that sort of agreement, you've got a fairly good chance of defeating a declaratory judgment action. The practicality is what is the licensing target going to do. Are they going to file a declaratory judgment action on all 10,000 of your patents? I don't think they're going to do that. So it varies.

TAUTFEST: One of the intended effects of the *MedImmune* decision was to decrease the number of lawsuits that were filed or the number of accusations of infringement because the patent lawyer would be afraid that the declaratory judgment action would be filed. But what's happened is just what was described a minute ago, that many of the patent lawyers are filing a lawsuit first before making an accusation of infringement. And so that does increase the numbers of lawsuits that are filed. The other thing is that before you file a patent lawsuit you have this heightened Rule 11 obligation to complete your infringement analysis, which you don't necessarily have that just to do if you simply invite someone to enter into negotiations with you. So it does increase costs, and it results in insufficiency in some ways. The other thing about the *MedImmune* case that has changed licensing in that the real holding of that case was that if you had decided to go ahead and take a license on a patent, in the past, you had to repudiate that license in order to challenge the validity of the licensed patent or to file a declaratory judgment to challenge the validity of that patent. And it was in the context of whether or not the license holder could

file the declaratory judgment action for invalidity of the licensed patent without repudiating the license that the *MedImmune* decision revisited the standard for what constitutes a "controversy" between the parties that would confer declaratory jurisdiction. This aspect of the decision has led to the creation

of declaratory judgment jurisdiction upon receipt of virtually any type of notice letter or invitation to license. But the actual holding was that the license holder did not have to repudiate the license in order to create a controversy and there by obtain declaratory judgment jurisdiction to chal-

lenge the validity of the licensed patent. But the *MedImmune* decision has also changed licensing in the fact that now, at least on the plaintiff's side of the docket, I pushed a lot more for fully paid-up li-

censes as opposed to an ongoing royalty out of fear that the license holder is going to say, "Okay, I'll take the license and I'll start paying you, but now I'm going to file a declaratory judgment action to challenge the validity of that patent." In our licenses we have to take extra precautions to help prevent declaratory judgment actions, like saying, "Okay, well, if you file a declaratory judgment action, then the license is null and void," or, "if you file a declaratory judgment action and you are unsuccessful, then you have to reimburse me for my costs and fees. And, oh, by the way, the licensing rate goes up at that point." So it's changed the way that you approach licenses as well.

NELSON: I will talk about *MedImmune* from a little different perspective. It used to be as a plaintiff you had a certain amount of freedom. You could send out massive licensing letters to everybody that you thought might infringe or that you would want to try to maybe sue some day. Because the language that would trigger declaratory judgment jurisdiction was legally well-defined, a plaintiff could walk the line and put purported infringers on

"Companies from all over the world choose the United States to enforce their intellectual property rights because we have laws that stick, and we recognize the value of intellectual property."

— Mark C. Nelson



INTELLECTUAL PROPERTY

notice without risking subjecting itself to declaratory judgment jurisdiction. This ability provided the plaintiff several advantages: (i) it could start the notice clock ticking for notification for damages if the defendant was not previously aware of the patent, (ii) plaintiff could also begin to lay its foundation for willful infringement, and (iii) plaintiff could begin dialogue with potential infringers with little monetary risk. One of the perhaps unintended consequences of *MedImmune* and *Seagate*, which I was going bring up in a second, is that the dynamic has changed. Plaintiff now faces the so-called Hobson's choice — if plaintiff gives defendant specific notice it's quite likely that declaratory judgment jurisdiction has been created, if plaintiff does not give defendant notice then, under *Seagate*, plaintiff may not be able to support a willfulness claim. And losing a potential willfulness claim is a big deal from a tactical perspective because the patentee certainly wants the option of painting the accused infringer as being an intentional copiest — i.e. a really bad infringer.

ANDROVETT: *Patent reform: is it necessary and will something ever come out of Congress?*

WATKINS: I'm told by a person who should know that it's never going to pass. And I have another friend who should know who has told me it's an absolute certainty that it's going to pass, which indicates I need a better set of friends.

POLLINGER: It's up in the air as to whether it passes and what form it's going to pass. The fact of the matter is, in the last few years in particular there had been patent reform and it's come by way of judicial decisions, whether it's the *KSR* decision on obviousness, whether it's the *Seagate* decision that makes it a lot more difficult to have a finding of willfulness, whether it's the *MedImmune* case talking about when you can file a declaratory judgment action and when a licensee can challenge the related patents. Basically, to go down the list of hot reform issues, a number of them that we're able to address and modify in law by way of judicial decisions out of the federal circuit or the U.S. Supreme Court. And we're going to continue to see that where patent litigation has a really high profile because of the

high stakes and in areas where there are a lot of complaints, we're going to continue to see judicial reform.

TAUTFEST: In some degree we're kind of taking care of the problem ourselves. What prompted a lot of the patent reform in Congress was that 25 years ago patents were basically sitting in filing cabinets and patent rights were being trampled upon. And then you had these cases that would come out like the *Underwater Devices* case that allowed willfulness. And so now all of a sudden willfulness was pretty much presumed or it was easier to get willfulness and enhanced damages. And so a lot of what's happening is take that pendulum and bring it back, and unfortunately, whenever a pendulum swings one way, you always have to take it to the opposite extreme and then eventually you end up eventually somewhere in the middle. And so what the Supreme Court has done in some of these recent cases over the last few years is try to bring the pendulum back to the middle without patent reform taking it all the way back to the other extreme again. And so a lot of the things that are happening with some of the cases we talked about today that are fixing those problems. If we have some of these judicial panels that we talked about that would maybe resolve some of the venue issues that are in patent reform, the damages, the mandatory apportioning that's already in the *Georgia-Pacific* factors. So in some ways, those aspects of patent reform are trying to fix something that just isn't broken.

WATKINS: One of the patent reforms we need that we're not going to get is to have more patent examiners who are higher paid so they can stay in there longer and get more experience. And that's a tax issue, which we're not going to cross. But right now, the amount of time that any patent examiner can spend on a patent is minuscule compared to what it ought to take in order to determine it. And if we had that, we'd get better patents. But right now, they're coming out the assembly line fast and that's not good.

NELSON: I agree with that, and the focus of patent reform maybe should be directed toward fixing the PTO to give it the resources that it needs to more thoroughly examine patents so that what comes out is quality. The frustrating thing

for me, as somebody who practices in this area, is you hear a lot of debate about patent reform now, but I've heard virtually nothing about all the cases that have come out that have addressed a lot of the problems that patent reform was designed to fix. So I hope that before any action is taken that some of the scholars out there actually write on that issue, as opposed to simply listening to either side's lobbyist's propaganda. As to whether patent reform passes, I agree with your friends, it's a 50-50 proposition.

ROSE: I'm a big believer in judicial reform, and the courts can fix the excesses, to the extent they're excessive. But you turn either to Congress or a legislature, particularly a Congress in this instance, and allow them to "legislative form," I'm afraid it would be a mess and would make this all a lot worse condition than we're in today.

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