

PANEL I: Cross-Licensing and Injunctions – the Interplay Between Big Business, Small Business, and Non-Practicing Inventors

Moderator: Katherine Strandburg^{*}

Panelists: Lisa M. Ferri[†]

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MR. CAREY: Thank you all for being here. For those of you reading a transcript of the day's affairs in the *Fordham Intellectual Property, Media & Entertainment Law Journal*—the *IPLJ*, as we like to call it—congratulations on making a most excellent reading selection.

I am Erich Carey, the Editor-in-Chief of Volume XIX of the *IPLJ*, and it is my distinct privilege to welcome you all to our fall Symposium entitled “New Developments in IP: Strategies for Big and Small Business.”

Today's event marks the culmination of many months of discussion, planning, and preparation. Before we begin our proceedings, a round of thanks is most certainly in order.

First and foremost, I would like to thank the *IPLJ*'s Symposium editor, Mr. Anthony Rizzo, for his vision and

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dedication in organizing today's event. Today Anthony will be buzzing about the law school, making sure our program runs smoothly. Nonetheless, when you see him, please take a minute to personally congratulate Anthony on a tremendous effort in bringing the day's lineup together.

Thanks, Anthony.

Furthermore, both Anthony and the *IPLJ* have been most fortunate to have the assistance of Fordham Law School's Office of Public Programming and Continuing Legal Education in planning our event. From that office, we would like to thank and recognize David Quiles, Alice Wong, and, most especially, Helen Herman for all their time and effort in helping us achieve all of our goals for the Symposium.

Helen is not here right now, but if the journal were in the business of giving out honorary memberships, she would have a place high on our masthead. We would like to thank her so kindly for her patience and support in dealing with the *IPLJ* this year.

The *IPLJ*, moreover, is, of course, a direct beneficiary of the distinguished intellectual property faculty at Fordham Law School. Most especially, we would like to thank the inimitable Professor Hugh Hansen, who will be here later this afternoon, who has been instrumental in helping us to select and recruit the talent for this year's Symposium—and for, of course, keeping me on my toes in copyright class all the meanwhile.

Furthermore, the *IPLJ* would like to acknowledge its gratitude to our most excellent panelists and moderators for traveling to be with us here this morning. We have a tremendous lineup assembled. Truly, our panelists and moderators are the centerpiece of today's event. We look forward to our discussions and have no doubt that they will be wide-ranging, insightful, informative, and, yes, citation-worthy.

Finally, I would like to recognize and thank all the *IPLJ*'s editors and staff who, at the end of the day, really make the *IPLJ* the unique institution that it is. For students at Fordham with a passion for IP law, the *IPLJ* is home. The journal affords its members an unrivaled opportunity to learn, study, and contribute to the dialogue on all issues of intellectual property law. Towards

those ends, the *IPLJ* team produces four books of scholarship each year.

We are deep in the midst of publishing the *IPLJ*'s nineteenth volume, which features articles on a wide range of topics. From the current state of defamation law to technology transfer, to the impact of the IP monopoly on voting rights, we are, of course, as proud as ever of our content this year.

An electronic version of our upcoming first book, Volume XIX, may be presently found on our Web site at www.iplj.net. We also have copies of some of last year's issues available outside in the atrium, which you may help yourself to. But when so doing, please consider subscribing to or sponsoring the *IPLJ*.

Authors, we, of course, are always grateful to consider your submissions.

I encourage you also to reach out to our journal members today, easily identifiable by their nametags, and learn more about the *IPLJ* or perhaps visit our journal office downstairs, where preparation will be under way for a first-ever *IPLJ* Thanksgiving, to take place on the conclusion of our Symposium this afternoon. It's a distinct spirit that defines the *IPLJ*, and we try to bring that spirit to all that we do.

Today we add another exciting chapter to the legacy of the *IPLJ* with this year's installment of our annual fall Symposium. Today's Symposium proposes to look at how recent developments in key areas of intellectual property law stand to affect both business and litigation strategy.

Our panels were constructed carefully to try to shed some light on big and small business concerns. We will begin the morning with our patent panel, which proposes to look at the evolving role of injunctions in patent litigation in the wake of the United States Supreme Court's decision in *eBay v. MercExchange*. Following our patent discussion, we will feature our copyright panel, which will examine the availability of statutory damages and suits for infringement, as well as the viability of the controversial "making available" right. After our copyright panel, we will break for lunch and ultimately conclude our Symposium with our trademark panel,

which aims to take the pulse of the current status of the trademark doctrine of dilution.

It should be a fantastic day of scholarship. I would encourage everyone to stay and attend all three panels today.

As I alluded to earlier, transcripts of today's panels will be published in our final book of the year, which is due out this summer.

To formally begin our event, I would like to introduce our faculty moderator, Professor Mark Patterson. This is Professor Patterson's first year as our moderator. We are ever so grateful that he agreed to join us on the *IPLJ*.

Professor Patterson brings to the journal his experience both as a widely published author and revered professor at Fordham Law in the areas of contract, antitrust, and patent law. Consistent with his background, we asked Professor Patterson to give a few introductory remarks and then introduce our patent panel moderator.

Now that the coffee is hopefully starting to kick in, please give a hand in welcoming Professor Patterson. Thank you all very much.

PROF. PATTERSON: Thank you, Erich.

On behalf of the law school and its faculty and administration, I welcome you all here to this year's *IPLJ* Symposium. Unfortunately, Dean Treanor couldn't be here this morning, but I know that he is excited about having this terrific event here at the law school today. As many of you know, Dean Treanor views intellectual property and information law more generally as a strength of Fordham and an area that he actually wants to make even stronger.

As Erich said, this is my first year as moderator of the *IPLJ*. But I can say that, as moderator and as a previous participant in the Symposium, I'm proud to be associated with the journal. As Erich said, Anthony Rizzo, the Symposium Editor this year, and the other members of the journal put in a lot of time and devote a great deal of effort to the Symposium, both planning and leading up to it and in publishing the Symposium subsequently. They do that great

work not just on the Symposium, but, of course, on the work of the journal more generally, which is why it's one of the most highly rated journals in this area.

So I encourage you, if you have articles in this area that you would like to publish, to submit them to the journal.

I also want to acknowledge the Fordham faculty who are involved here today. As Erich said, Hugh Hansen, who will be here later, has been heavily involved in the planning of the program. Our visiting professor, Kathy Strandburg, is moderating the patent panel, and we have two adjunct faculty participating on the panels today, Lisa Ferri, who is on the first panel here, who teaches patent litigation at the school, and Eric Prager, who is on the trademark panel later on this afternoon.

Finally, I want to say just a little bit about the Symposium's focus. I think it's a really commendable focus on looking past the basic idea of IP or even its components—patent, copyright, and trademark—and thinking about how the effects of IP protection differ in different contexts. So the distinctions among small and large businesses are touched on; they are addressed in IP scholarship generally. But the idea of having a single Symposium to think about that particular issue with regard to the different forms of IP and in different contexts is, I think, a terrific idea that's going to make for an interesting program.

So as not to delay that program any longer, I'm going to turn the podium over to Kathy Strandburg. As I said, Kathy is a visiting professor here this year from DePaul University College of Law and is teaching patent law and Internet law. We have been thrilled to have her here this semester.

PROF. STRANDBURG: Thank you, Mark. I'll just add my thanks to the journal for putting this program together, and particularly to Anthony Rizzo, who I think has done a fabulous job in getting the speakers and getting the panels together.

I'm going to begin. My job here is to provide just a little bit of introduction to the topic of this panel. The topic of the panel is "Cross-Licensing and Injunctions—the Interplay Between Big Business, Small Business, and Non-Practicing Inventors." Another

name we might give to this panel is “What’s Happening After the *eBay v. MercExchange*¹ Case?”

That’s going to be the focus of the panelists. Just to provide a little introduction to that, I’m going to give you a little background information on the *eBay* case. I have a couple of PowerPoint slides to go with that.

The *eBay v. MercExchange* case is a Supreme Court case that came out in 2006, so it’s now a couple of years old. We think this is a good time to look at what has been happening, what the implications of the case have been so far, and to think a little bit about, in the future, where things are going.

The *eBay* case involves eBay—I’m sure everyone knows what eBay is—and a company called MercExchange, which owned a patent which was on—and here I’m quoting from a description of it in the Supreme Court’s opinion—“an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants.”²

There was a jury trial in the case, and the jury determined that eBay infringed and that the patent was valid.³ This is where our story begins, because the *eBay v. MercExchange* Supreme Court case has to do with the question of remedies: What happens after you find out that the patent is infringed and valid?

The district court in this case declined to grant an injunction.⁴ The reasons that the district court gave for declining to grant an injunction were that MercExchange had shown through its prior behavior that it was willing to license its patents and that it was a patentee that had not itself commercialized its invention.⁵ The district court decided, in a sort of categorical way, that for those reasons, there would be no injunction.

¹ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

² *Id.* at 390.

³ *Id.* at 390–91.

⁴ *Id.* at 391.

⁵ *Id.* at 393 (citing *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003)).

The Federal Circuit reversed on the grounds that there was basically a general rule—I think all of us who either taught or practiced patent law prior to *eBay* were quite familiar with this general rule—that if there is infringement and validity, you get a permanent injunction.⁶ In fact, in my patent class, when I first started teaching it, I spent probably five minutes on injunctions, because there wasn't really much to say. Now, of course, it's a big topic, and I spend at least one class on it, because of this case.

What happened at the Supreme Court? At the Supreme Court, the entire court agreed that there should be no general rule favoring injunctions⁷—disagreeing with the Federal Circuit.⁸ The entire court also agreed, however, that the district court had not gotten it right, that there was no categorical rule against an injunction just because you were a non-practicing entity who was willing to license your patents.⁹ The Supreme Court concluded that in patent litigation, as elsewhere, the determination as to whether or not to grant an injunction should be a discretionary, equitable determination by the court based on the traditional four-factor test:¹⁰ (1) asking about whether there was irreparable injury; (2) asking about whether there was an inadequate remedy at law; (3) looking at the balance of hardships to be expected if an injunction is or is not issued; (4) looking at questions of whether the injunction would be against the public interest.¹¹

Interestingly, the unanimous opinion was very short, and there were two concurrences that had rather different takes on the main opinion.

Justice Roberts wrote a concurrence in which he highlighted the long tradition of granting injunctions in patent cases, noted that this historical practice was relevant and should be considered in looking at what to do in the future,¹² and also made the point that

⁶ *Id.* at 393–94 (citing *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005)).

⁷ *Id.* at 391, 394.

⁸ *Id.* at 394.

⁹ *Id.* at 393.

¹⁰ *Id.* at 394.

¹¹ *Id.* at 391.

¹² *Id.* at 394–95.

although there is discretion, discretion is not whim and this long tradition of granting injunctions is significant.¹³

Justice Kennedy had a very different perspective on the opinion. He emphasized the importance of the context, the technological and economic context, in which the court would be considering whether to give an injunction.¹⁴ He discussed the concern about the use of injunctions as a bargaining tool, as a way to be able to charge what he called exorbitant fees, in cases where a patent covered only a small part of a project¹⁵—what is sometimes called the holdup problem. He also mentioned as a consideration what he called “the potential vagueness and suspect validity” of some business-methods patents.¹⁶

So it was quite clear that Justice Roberts saw this case as making a minor correction in doctrine, probably without much significance, whereas Justice Kennedy—and both of these justices were joined by others—saw this case as possibly making a very significant difference because of the changes in technology and economics that had happened in recent times.

So that’s where we stand. That’s all I’m going to say. Our panelists are going to address what has happened since then and some of the many questions left open by the Supreme Court: Under what circumstances are we going to end up denying injunctions? What do we do if an injunction is denied? What other kinds of remedies are we going to use? Particularly of interest to us here in this panel are what kinds of effects this possible denial of injunction has on the business and legal strategies of patentees and potential infringers.

I’m going to introduce each panelist individually as he or she speaks, so they can each have appropriate attention.

Our first panelist is Lisa Ferri, who is a partner in the law firm of McDermott, Will & Emery here in New York and is a member of the Intellectual Property, Media, and Technology Department and also serves on the firm’s Life Sciences Steering Committee.

¹³ *Id.* at 395.

¹⁴ *Id.* at 395–97.

¹⁵ *Id.* at 396.

¹⁶ *Id.* at 397.

She focuses her practice on patent and other intellectual property litigation. As you have already heard today, she's an adjunct professor of law here at Fordham, for which we are very grateful.

She received her J.D. from Seton Hall Law School and served as an editor on the *Law Review* during that time. She then served as a law clerk to Chief Judge Edward Re of the U.S. Court of International Trade. She has a lot of experience in trial, appellate, and International Trade Commission (or "ITC") practice, from which we will benefit when we hear her remarks today.

With that, I'm going to turn it over to Lisa.

MS. FERRI: Good morning.

In the past two and a half years, since the *eBay* decision has come down, practitioners in this field have shown great interest in the district courts' application of this decision. It has been watched very closely. It has had a significant effect on how companies approach patent litigations and how they deal with suits and whatever attendant settlement or licensing negotiations may flow from that. It has certainly also had a great impact on practitioners in terms of advising clients.

Certainly it has to do with how we might approach our clients, depending on their business model. For instance, if it is a manufacturing company or if it is a non-practicing entity or a research institute, all of that will go into the approach taken by the company when it comes to the application of *eBay*.

As Professor Strandburg said, prior to *eBay*, the injunction was fairly automatic if your patent was found to be infringed and valid. That's no longer the case. There is little consensus among the district courts on how to apply *eBay*, but certainly there are a number of trends that we have seen. For instance, competition between the parties, loss of market share, or loss of reputation may weigh in favor of granting the injunction, whereas if you are a non-practicing patentee and you have a licensing program, that may weigh against it in the district court's view.

If the patented invention is a small component of a larger product, that also can weigh against an injunction, whereas any ability to calculate losses may go in favor of the injunction.

One of the primary factors we have seen is competition between the parties. Generally speaking, if they are competitors, an injunction will be issued. The fact that they are competitors weighs heavily on the factors of the irreparable harm and the inadequacy of monetary damages, as we see from a few of the cases I have shown just as examples. For instance, in the *Becton Dickinson*¹⁷ case in Delaware, the court looked at the loss of market share of the patentee in issuing the injunction.¹⁸ In *Amgen*,¹⁹ similarly, the fact²⁰ would counsel for an injunction because there would be great loss of market share, profits, and ability to maybe license exclusively to the patentee.²¹

As a comparison, just a few examples of the opposite scenario. In *Advanced Cardiovascular System*,²² even though they were competitors, the court found that, specifically, the way the patentee had delineated the market, on this particular product they were not competing head to head, and the court did not issue an injunction.²³ In the *Innogenetics*²⁴ case, there was an injunction,

¹⁷ *Becton Dickinson & Co. v. Tyco Healthcare Group LP*, No. 02-1694, 2008 WL 4745882 (D. Del. Oct. 29, 2008).

¹⁸ *Id.* at *3–4.

¹⁹ *Amgen Inc. v. Ariad Pharm., Inc.*, No. 06-259-MPT, 2008 WL 4487910 (D. Del. Oct. 3, 2008).

²⁰ In *Amgen*, the U.S. District Court for the District of Delaware issued a declaratory judgment in favor of Amgen regarding its claims for non-infringement of U.S. Patent No. 6,410,516 (the “516 Patent”). *Id.* at *3. The case focused on the Amgen drug Enbrel, which the court found “acts outside of cells, rather than inside the cells.” *Amgen Inc. v. Ariad Pharm., Inc.*, 577 F. Supp. 2d 695, 700 (D. Del. 2008). This tended to show non-infringement of the 516 Patent. *Id.* at 701–02.

²¹ Ariad now seeks reinterpretation of the asserted patent claims by the Court of Appeals for the Federal Circuit. See Chris Reidy, *Ariad Wins Its Request to Appeal Patent Ruling*, BOSTON GLOBE, Oct. 6, 2008, http://www.boston.com/business/ticker/2008/10/ariad_wins_its.html. Ariad is the exclusive licensee of the 516 Patent, which was developed by research groups in Boston. See *Ariad Files Claim Against Amgen and Wyeth Alleging Infringement of NF-(kappa)B Patent by Enbrel® and Kineret®*, BUSINESS WIRE, Apr. 13, 2007, available at <http://www.genengnews.com/news/bnitem.aspx?name=15625265>. Since Ariad is the exclusive licensee of the patent in question, issues of market share could be relevant on appeal, particularly in light of the *Becton Dickinson* opinion, which focused on market share and was decided a few weeks after *Amgen*.

²² *Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554 (D. Del. 2008).

²³ *Id.* at 562.

²⁴ *Innogenetics, N.V., v. Abbott Labs.*, 512 F.3d 1363 (Fed. Cir. 2008).

which was then reversed because at the district court level there was a future component to the damages royalty payment given to the patentee, and the Federal Circuit found that that really showed that there was no irreparable harm.²⁵

Where there is no competition between the parties, often there will not be the injunction issued. This goes to what we call the patent trolls,²⁶ the non-practicing entities. An example of this is *Paice v. Toyota*,²⁷ which is a fairly well-known case where Paice just licensed the technology.²⁸

There was an exception to this in the past few years, the *CSIRO*²⁹ case, in which the court did issue an injunction and really looked to the fact that although the patentee didn't practice, they were a research entity and the court felt that there would be loss of possible funding, there would be a problem in getting researchers, loss of reputation, and that a compulsory license just would not function to make the patentee whole in that situation.³⁰ The injunction was issued.³¹

In light of *eBay*, a patent holder should consider moving to the International Trade Commission as a forum, especially if an injunction is deemed to be necessary. A complainant or patentee in the ITC may obtain an exclusion order or a cease-and-desist order against any imported goods that are made outside the U.S.³² This is not subject to the *eBay* factors. This is actually quite popular, because you will not have to go through the test of the

²⁵ *Id.* at 1380.

²⁶ “The term ‘patent troll’ was coined in the late 1990s by Peter Detkin, then assistant general counsel at intel, to refer to patent owners who hide under bridges they did not build to pop out and demand money from surprised passers-by.” Mark A. Lemley, *Are Universities Patent Trolls?*, 18 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 611, 613 n.2 (2008).

²⁷ *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007).

²⁸ *Id.* at 1303.

²⁹ *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600 (D. Tex. 2007), *aff'd in part, vacated in part*, 542 F.3d 1363 (Fed. Cir. 2008).

³⁰ *Id.* at 604.

³¹ *Id.* at 608.

³² 19 U.S.C. § 1337 (2006).

four elements there.³³ Although the ITC does often look at a public-interest factor, it's extremely rare.³⁴ There are probably fewer than a handful of cases where they have failed to exclude an imported product based on public interest.

It is necessary, however, to establish that there is a domestic industry for the patented invention. For this reason, you may wonder if this would apply, then, to a non-practicing entity. But under the statute, which is 19 U.S.C. § 1337, a non-practicing entity can turn to the ITC for injunctive relief if they establish that domestic industry exists, meaning that the patented invention is exploited in the U.S., and you can show this through licensing.³⁵ This is a forum that a troll or a non-practicing entity can benefit from.

Another benefit is that you can have a district court action proceeding simultaneously. So you can file suit in the ITC for the injunction, file simultaneously in the district court, and have the damages component going. Because of this, we have seen a dramatic increase in ITC filings since the *eBay* decision. In my own practice, I have seen in the last two years that this has become a very popular forum for non-practicing entities, because that threat of the injunction really does push the settlement and the possibility of licensing, along with the fact that this very rapid pace also puts some pressure, as do the companion district court cases.

Since the *eBay* decision, we would expect to see increased litigation, certainly as the chances of an injunction decrease. This would apply, of course, for the non-practicing entities' situation, because there is certainly less incentive to settle then. Among competitors, the threat of counterclaims sometimes tempers this threat of injunction, and many large companies, like the Ciscos and

³³ *eBay v. MercExchange*, 547 U.S. 388, 391 (2006) (“A plaintiff seeking a permanent injunction must satisfy a four-factor test . . . (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”).

³⁴ 19 U.S.C. § 1337 (2006).

³⁵ *Id.* § 1337(a)(3) (“[A]n industry in the United States shall be considered to exist if there is in the United States . . . substantial investment in its exploitation, including engineering, research and development, or licensing.”).

Oracles, have large patent portfolios that they really use defensively in this situation.

For the non-competitors, really there has been a shift in the balance of power here. There may be a thought of why not risk the litigation, because the worst-case scenario is maybe that if you lose, you pay this royalty.

For some companies in this post-*eBay* world, it seems that the accused infringer really is benefiting, because the patentee may not be able to exclude with any certainty. If there is no injunction, what does the patentee receive in that case? We have seen that certain of the district courts have basically looked to past infringement damages and then used that going forward to put in place a royalty. In the *Paice* decision, which both parties appealed to the Federal Circuit, the Federal Circuit remanded this, with the thought in mind that the royalty rate that was set from the past infringement really would not be the appropriate undertaking by the parties.³⁶

If there is a thought of something other than an increased royalty payment, what should it be—if it's thought that the past infringement damage is not sufficient? The court in the *CSIRO* decision felt that just going on the past infringement is not sufficient, because you are not really valuing the patent and its worth today, and you are not taking into any consideration maybe non-monetary licensing terms that should be available to the patentee.³⁷

Post-*eBay*, we certainly see cross-licensing for certain industries as being very popular. For instance, in the semiconductor/computer software industries, where they have amassed a large patent portfolio, this can be used both offensively and defensively. You find in this particular industry that products can be covered by hundreds of patents, so you can easily be an inadvertent infringer. For that reason, having this kind of defensive portfolio is very important.

³⁶ *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007).

³⁷ *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 606 (E.D. Tex. 2007).

For the pharmaceutical companies, in contrast, cross-licensing really is not a popular option. Injunctions are very important to that business. Part of this flows from the fact that research and development in this area is extremely costly, and you may have a patent there that covers a pharmaceutical product that is worth billions of dollars. So injunction is really what you are seeking.

The cross-licensing really only works as a solution if the patentee will face a comparable threat from its target. In the instance of the non-practicing entity, there's really not much interest in the cross-licensing, because they are not really subject to that threat. So in those scenarios, really, what we see is that litigation is going to be the option that they will be pursuing.

Thank you.

PROF. STRANDBURG: Thank you very much, Lisa.

Our next panelist is Jack Griem, who is a Partner at Milbank in the Intellectual Property Group of the Litigation Department, here also in New York. He also concentrates his practice on litigation, but also is involved with license and technology-development agreement negotiation and other kinds of intellectual property issues involved in corporate and finance transactions.

He is a member of the Pharmaceutical Issues Committee of the Intellectual Property Owners' Association and a former member of the Committee on Patents and the Committee on Trademarks and Unfair Competition of the Bar Association of the City of New York.

He received his J.D. with honors from Hofstra University Law School, where he was on the editorial board of the *Law Review*.

With no further ado, I'll turn it over to Jack Griem.

MR. GRIEM: Thanks, everyone, for coming. I look forward to discussing these issues with you after we have done our presentations.

Today I just have a few slides that are generated to provide some thoughts for further discussion and also, perhaps, a minor-note counterpoint to Lisa's presentation.

I have tried to take a look at the effects of *eBay* and the issues raised by the panel topics from the view of the smaller company.

By that I mean a company that has a smaller portfolio. It may or may not be practicing—the company, that is to say, may or may not be making a product—but it is certainly a company, like almost all patent owners, in the business of technology and research and technology development. It also implies a company that has fewer resources. In my experience as a practicing attorney doing a lot of litigation, from a practical perspective, you do have to consider the resources of the parties in thinking about what kind of strategy they will follow.

I think that smaller companies, even in a post-*eBay* environment, have a lot of advantages that go a long way to outweighing the shift in the presumption of the injunction that came with *eBay*.³⁸ In litigation, especially litigation that only involves a few patents, the parties spend a lot of time focusing resources and trying to pick apart or build up those particular patents. From experience, patent quality is built during prosecution. A smaller company that focuses on a fewer number of patents is, I think, inevitably, more likely, going to get a higher quality out of their patents, and that will show up in the litigation. They will be able to assert them with more confidence, and I think that shows.

Larger companies inevitably end up having to manage larger portfolios. Decisions are made on an overall basis, with less focus on particular patents. That ends up playing out in the way they negotiate cross-licenses. They look at the whole portfolio and they pick a few patents as representative, rather than looking at each patent individually and trying to assess its value.

I think that the market is now such that small companies and individual inventors should not necessarily fear litigation. They do not have the hammer of the injunction that used to come with the presumption that the Federal Circuit had created and which the Supreme Court took away in the *eBay* decision.³⁹ But I think with good counsel and some creative thinking, a small company can tell a story of competition that would merit an injunction and tell a story of innovation that will get the judge on their side.

³⁸ *eBay v. MercExchange*, 547 U.S. 388, 393–94 (2006).

³⁹ *Id.*

I think the most important thing that came out of the *eBay* decision was a return to the courts of the power of equity. What that means is that the judge is now much more in control of fashioning a remedy. The courts have an inherent power to do that. The statute expressly refers to the principles of equity in empowering courts to grant injunctions.⁴⁰ I think that what that means is that a small company, which I think is going to have a story to tell and may, in fact, be owned by the inventor, can usually tell a pretty good story in equity to the court that has the power to grant the injunction. I think that's important.

The market has developed in a way, as we all know, that ends up providing funding for litigation to support patents that are deemed to have value. If a small company does have a real invention that has been adopted industry-wide, even if they are not practicing, they can usually find a way to bring the case.

Larger companies have a greater risk in litigation. Even if the litigation value is assessed only on the value of the royalty that is going to be paid, either as the result of a judgment or as a result of a settlement, the time and the cost that goes into defending the litigation is a factor that works in favor of the smaller company. The small company probably just simply doesn't have the same number of documents and witnesses and so can use rules, particularly rules in some of the courts in this country, the patent rules, in order to impose a really high burden on the defendant to make them focus early on prospects for settlement.

Of course, the risk of patent countersuit is small. They may not have a product at issue, and if they do, it's less likely that the other side has a patent that would implicate that product.

In assessing whether or not to settle, obviously the threat of injunction was always a big factor in whether or not to settle, whether or not to take a case to trial. I think a really good example of this is the settlement that was achieved in the *RIM* litigation that was brought by NTP.⁴¹ That, I think, is one of the best and last examples of the power of the injunction. They had won, and while

⁴⁰ 35 U.S.C. § 283 (2006).

⁴¹ See *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005); Carl Tobias, *Blackberry Litigation: Lessons Learned*, 28 NAT'L L.J. 34 (2006).

the patents were even being reexamined, the judge was clearly done with the case. He was about to implement that presumption, and so the parties ended up deciding that settlement was the right option.⁴²

That wouldn't be the case today, I don't think. But you still have the risk. Until you get farther along in the litigation, you still have to litigate the merits. You still have to litigate the reasonable royalty. Jon can tell us that that can vary widely and there are a lot of factors that go into that. So I think you still end up with the real possibility of settlement, even if the injunction isn't a sure thing.

The *CSIRO* case teaches us that there are some good strategies that the smaller company can take in order to tell a story of entitlement to an injunction based on competition and based on harm, intangible harm, to their economic prospects. As I said, every company, even a small company, even an individual inventor, is involved in the business of research. So the principle in that case applies. Even a large company that is not really competing yet in a particular market can argue that they are researching in an area where the other company is selling a product.

Also the law allows you to take advantage of what your licensees are doing, if the licensee is willing to participate in the suit. Several cases have found that you can't take advantage of harm to your licensee if they are not in the suit, but if they are in the suit, even as a passive participant, you can piggyback off the harm that would come to them in getting an injunction.

That's all I have prepared in my slides. We can talk about this more later.

PROF. STRANDBURG: Thank you very much.

Our final panelist is Jonathan Putnam, Vice President of CRA International. He may tell you a little bit about what they do. He has a Ph.D in economics from Yale and is an expert in intellectual property, industrial organization, applied microeconomics,

⁴² Peter J. Pizzi, *Patent Injunctions: The Effect on the Public Interest of 'NTP v. RIM'*, 235 N.Y. L.J. 5 (2006).

technological change, and antitrust, and has served as an expert witness in many, many different fora.

He is also a research associate at the Institute for Policy Analysis and for four years, served as the Ontario Research and Development Challenge Fund professor of the law and economics of intellectual property at the University of Toronto, in their Centre for Innovation Law and Policy.

As I mentioned, he has served as an expert witness in many kinds of cases, including patent infringement, trade secret, antitrust, contract actions, in front of virtually any forum you can imagine, and also previously taught at Vassar, at Columbia University, both in the law school and the business school, at Yale, and at the Boston University Graduate School of Management.

He also managed to get here, despite the vagaries of Amtrak from Boston. So we are very appreciative of that. I'll turn it over to him.

MR. PUTNAM: Thank you, Katherine.

There was some discussion among the panel members about who would represent large versus small companies on the panel. So I thought, as an empirical person, I would ask for you to rank companies according to their size, since I asked myself, do I represent large companies or small companies? I don't know what that means.

So rank the following companies by size: Tyson Chicken, JCPenney, or General Motors.

JCPenney is much bigger than General Motors right now, based on market capitalization. General Motors is in a neck-and-neck fight with Tyson Chicken as to which is larger. Depending on how things go on Capitol Hill, General Motors either pulls ahead or falls behind. They had a good day yesterday with the senators, and they pulled slightly ahead of Tyson Chicken. If you are following stocks to bet, General Motors may be the next big company. You might want to look at that for a growth stock.

I bring this up because I don't actually care about the size of companies; I care about getting the right market price. Jack talked about the *NTP* litigation, which I would not style, as an economist,

a small company versus a large company, although that's true. I would say the reason why that was a problem was because the price that was reached for the technology in question was vastly out of line.⁴³ As a result of the possibility of an injunction, the small company exerted enormous leverage.⁴⁴

At the end of my talk, we are actually going to go back to this and I'm going to evaluate the *NTP* case, in light of the things I want to discuss.

So my first magic act today is to try to convince you of something that you probably think is not true. It's sort of cliché in litigation that when you are arguing about public policy in favor of settlement, people say that it's good to have certainty in litigation; companies crave certainty and they don't like an uncertain environment; it was good, whether you agree with *eBay* or not, that the Supreme Court actually weighed in and settled some things; we need to have certainty.

So the first thing I want to convince you of is that certainty is not always a good thing. Let me give you an example.

Suppose we are playing a game called Matching Pennies. In the Matching Pennies game, the way it's going to work is, you and I are just going to pull out a penny. We are going to turn it over. If both coins are heads or if both coins are tails, you get to take my penny, if they match. But if the coins are heads and tails or tails and heads, then I get to take your penny. So the question is, what are you going to do? You could, believing in certainty, say, "I'm going to take out my penny and I'm going to play heads. It's good to have certainty, and so I'm playing heads every single time." But, of course, if I know you are going to play heads every single time, then my best strategy is to play tails every single time, and until you figure this out, I will keep taking your penny from you, because you are playing a certain strategy.

What is your optimal strategy? Your optimal strategy is to flip your coin and show me whatever comes up. Then the best I can do

⁴³ Sheri Qualters, *Patent Review Overhaul Draws Praise: A Process Once Viewed as Risky May Help Avoid Costly Delays and Suits*, 30 NAT'L L.J. 8 (2007).

⁴⁴ *BlackBerry Battle Ends in \$612.5m Settlement*, 28 NAT'L L.J. 12 (2006).

is take it half the time by flipping my coin. So you pursue something called a mixed strategy.

“What does that have to do with anything?” you might ask. That’s a good question. What it has to do with injunctions is that if you know that you are certainly going to face an injunction or if you know that you are certainly not going to face an injunction, then that affects your incentives in the way you play the game. If you know that you can get an injunction against somebody, guess what? You have an incentive to become a patent troll and file suits that have little merit, but a small chance of an enormous payoff. That’s how I would characterize *NTP*. If you know that you are not going to face an injunction, what are you going to do? You are much more likely to infringe and say, “You know what? The worst that can happen to me is, I’ll take the deal that I’m being offered right now. So I’ll take this guy to court, try to bleed him dry, and if the judge imposes anything, he’s going to impose the offer that I’m facing today.”

Those are two kinds of opportunistic behavior that you want to avoid. What you want is for the court to have enough discretion and flexibility to say, “We might very well award an injunction in this particular case, and you can’t prove that we’re not going to.” That deters people, when they think there is some possibility of a very bad outcome either way. We might not get one or we might get one, depending on what happens.

So the first point is that incentives actually really matter. I’m going to talk to you about various factors that arise within the context of the ordinary litigation that courts should look to to make injunctions less likely or more likely.

We just talked about the Matching Pennies example. The point of it is that an automatic injunction or the removal of the automatic denial of an injunction removes uncertainty, and that leads to bad incentives. You want people to face uncertainty; they behave better.

What’s the second point? The second point is that if there is an established royalty for the patent—how many times has this happened to you? You go into litigation, the plaintiff says, “I want \$500 million for your infringement,” and then you get them to

produce all their prior license agreements on the same technology, and *Georgia-Pacific*⁴⁵ says that these prior agreements are irrelevant,⁴⁶ and so they have settled with twenty other defendants for \$2 million to \$5 million. But from you, they want \$500 million, and that's what they are going to tell the jury.

What's the problem with that? The problem with that is that all the defendant's prior settlements are inadmissible. So they can go before the jury and say, "This patent is worth \$500 million," even though there are twenty people who have decided otherwise and these guys have signed a deal with them.

I have real data from a case, where I have shown that settlements follow a linear trend relative to market share. We have the plaintiff's demand, \$535 million for a settlement that is predicted to be about \$4 million. What should this fact pattern tell you? Let's assume that the case goes to trial and that the defendant actually loses, instead of settling in advance. What should this tell you about the prospects for an injunction?

If you can prove that there is an established royalty for the patent, you should not get an injunction. The market price has already been decided, number one, and number two, the plaintiff has shown a willingness to license. In that case, if there is an established royalty, no injunction, or it should be less likely.

You should also ask, though, at this point the purely legal question: should the settlements continue to be inadmissible at the injunction phase of the trial? I would say not.

Also, if the case goes to trial and the damages award markedly exceeds the rate at which the plaintiff has settled with other defendants, I would say that also argues against an injunction, because the plaintiff is, in effect, being overcompensated. We allow the jury to decide this. We allow the jury not to see the inadmissible settlements. But if you get stuck with \$300 million when everybody else is paying \$3 million, you probably should not also be enjoined.

⁴⁵ *Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.*, 446 F.2d 295 (2d Cir. 1971).

⁴⁶ *Id.* at 298.

Next, suppose the defendant proves that it has a non-infringing alternative. Under the *Grain Processing*⁴⁷ case, what that means is that the court should look to the next best alternative and the cost of switching to it as a measure of the reasonable royalty.⁴⁸ If I'm using a particular process and the next best process would cost me one percent more and it yielded just as good a product, then the royalty that I'm willing to pay for the right to use that process is about one percent. It's not rocket science.

Suppose you have that alternative available and you can show that it was available to you throughout the period, and suppose that's what the jury awards you, one percent. Should you get an injunction? Yes, you probably should. The reason why is because the defendant says, "There's a non-infringing alternative. I can switch." If the defendant has already said, "I can switch," then that's a good reason to hope the defendant is not bluffing and say, "Okay, switch."

The entire-market-value rule: if the patent covers the entire market value of the product, an injunction should be more likely. Clearly, that's not the case in *NTP v. RIM*.⁴⁹ But the critical point here is that if you issue an injunction, there is no significant loss of intellectual property to the consumer. The main intellectual property is the asserted patent, and so you are enforcing the asserted patent and not losing the benefits of all the other intellectual property. If you enjoin BlackBerry's, guess what? There are 1,000 patents in that BlackBerry. You are enforcing the rights of one and causing people to lose the benefits of the other 999.

Suppose the plaintiff says, "Look, you would have settled with us for a fully paid-up royalty. You would have paid us \$20 million. That's our reasonable royalty," based on whatever the argument is. Suppose the jury awards \$20 million. Should you get an injunction? No. If you paid for a fully paid-up royalty, you should get a fully paid-up license, which means over the life of the patent. That should be per se, in my opinion.

⁴⁷ *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341 (Fed. Cir. 1999).

⁴⁸ *Id.* at 1346–51.

⁴⁹ *See NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005).

Something that is slightly more gray: suppose the plaintiff demands a royalty that's based on sales projections that occur after the trial. For example, I'm in a case right now where the plaintiff is demanding a very high royalty based on sales that a defendant has not yet made, but expects to make. Averaged over the twenty years of projections, the device is supposed to be very profitable, but as of today, it's not profitable. If the jury awards that high royalty rate based on those high projections over the lifetime of the product and not limited to the damages period, which ends at trial, then it should be less likely that you would get an injunction. In effect, you are paying for sales that occur in the future.

Standards: what do standards mean? Standards are valuable, whether they are private or public. A standard simply means that you are able to organize intellectual property and coordinate it in such a way that you produce a product that is more useful. Intel organizes its intellectual property when it produces a semiconductor chip, and telecommunications bodies organize intellectual property when they create public standards so that our cell phones can all talk to each other.

If you enjoin a patent under these circumstances, you hold up access to a whole slew of intellectual property for the sake of enforcing the rights of one. Under these circumstances, an injunction should be less likely, because the whole point of the patent system is to promote progress,⁵⁰ and you are denying progress if the amount of intellectual property that you are keeping off the market is so much greater than the amount whose rights you are enforcing.

Two things that might appear to be non-economic parts of a case, but actually are not: if there is a laches defense—obviously, if there is a successful laches defense and there is no infringement, it's not an issue. If a defendant has a good laches defense that fails, however, that might be enough to establish that there is a reliance interest in the intellectual property in question, and that would make it less likely that an injunction should issue.

⁵⁰ See, e.g., *Am. Plastics Cos. v. Gits Molding Corp.*, 182 F.2d 1000, 1005 (7th Cir. 1950).

The principle here is you want to reward an innovation; you don't want to reward holdup behavior or opportunistic behavior. You don't want somebody to invest in technology, market it, sell it, and then eight years later, all of a sudden they find, after they have sunk their investment, that there is one little piece of intellectual property whose permission he needs to get. What will happen, if you face an injunction, is that you will pay a lot of money not to lose that investment, and what you are rewarding is delay, not the innovation itself. Don't do it.

If you can prove willful infringement, that shows that the plaintiff ex ante knew about the invention, chose to infringe, and that shows an incorrect evaluation of the alternatives.⁵¹ You don't want to reward opportunistic behavior by a defendant who says, "What the hell? Let me take a flyer on it and see what happens."

Injunctions are thought of as being binary things, but one thing that you might want to do to allow the market to exercise some more control is to say, "I'm going to impose an injunction, but I'm going to impose it after a certain delay that gives the defendant the chance to do something else, like, for example, design around the invention." That allows the parties to sit down and actually negotiate over the future use of the invention, knowing that the patent is, in fact, valid, enforceable, and infringed, and to arrive at a price.

Then the question becomes, how long should you give the party to design around? Five years is probably too long; five days is probably too short. But this is what the judge decided in the *Broadcom v. Qualcomm*⁵² litigation. Qualcomm could sell its existing generation of phones and the injunction went into effect after a period of months.

One question is, what's the delay? The second question is, when should the defendant begin thinking about the alternatives? Obviously, showing up in court the date the Federal Circuit hands down its decision on appeal and saying, "Gee, we haven't really thought of an alternative. Can we have some time?" is not credible.

⁵¹ See Jeanne Fromer, *Patent Disclosure*, 94 IOWA L. REV. 539, 587–88 (2009).

⁵² *Broadcom Corp. v. Qualcomm Inc.*, 2009 WL 684835 (S.D. Cal. Mar. 12, 2009).

How would you look at these things? I'm just going to wrap up by saying, let's think about *NTP v. Research in Motion*.⁵³ The BlackBerry is, in effect, a private standard. RIM has organized a tremendous amount of intellectual property, both its own and others, all of which was going to be held up by the enforcement of a single patent right.⁵⁴ That would argue against an injunction.

Was the NTP patent the source of the entire market value of the BlackBerry? Clearly not.

Were the damages awarded high relative to comparable agreements? Enormously high.⁵⁵ I have worked against the other expert, NTP's expert, on two occasions, and—you can't argue with success, but you can argue with the truthfulness of the testimony. There is no relationship to economic reality.

Does it reflect the value of the next best alternative? Probably not.

Then you can go through the checklist—willfulness and laches and other things like that that are not economic considerations.

But again, if you had gone through in this fashion, you would have decided that an injunction is much less likely to issue in the *NTP* case, not simply because it's a non-practicing entity, but because of considerations that emerged in the course of discovery and trial.

I think I'm done.

PROF. STRANDBURG: Thank you very much.

At this point, what we want to do, after those very thought-provoking presentations, is move into a phase of discussion.

I want to start just by seeing whether any of the panel members have questions they want to address to one another, points they want to make in response to the things that the other panelists said.

⁵³ *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005)

⁵⁴ *Id.* at 1289–91.

⁵⁵ See Garret Barton, *Permanent Injunctions: A Discretionary Remedy for Patent Infringement in the Aftermath of the Ebay Decision*, 16 U. MIAMI BUS. L. REV. 1, 12–13 (2007). The district court awarded NTP, Inc. monetary damages totaling \$53,704,322.69. *NTP, Inc.*, 418 F.3d at 1292.

Then we will move on. I have a few questions for discussion, and we are very interested in hearing all of your questions as well.

So I'll start by asking if anyone wants to respond to what the other panelists said.

[No response].

Since the panelists are completely happy with each other's presentations, let me ask a couple of questions. In the meanwhile, you all out there should be thinking about the questions that you would like to ask. We won't spend too much time before we get to you.

I guess one of the questions I want to ask, just in terms of your experience since *eBay*, is whether you have seen—and you mentioned the *Qualcomm* example—what kinds of things you have seen courts doing in order to craft remedies, now that we don't have the automatic injunction. What are they doing? Are they doing ongoing royalties? Are they having parties come back?

Not only what are they doing, but what might courts do to craft more creative remedies, now that they have more flexibility?

MS. FERRI: I would say that—kind of twofold. First, just to step back and look at what remedies the parties are hoping for and looking toward, I think, has created some, perhaps, creative thinking on the part of some companies. I know I have seen certain non-practicing entities now try to recast themselves as being research institutes, so that they can fall under this *CSIRO* decision.⁵⁶ If an injunction is really important to you, I talked about going to the ITC. If that's not an option and you are in a U.S. district court, I think you have to be kind of creative in terms of how you describe yourself and how you put the evidence forward to the court to try to get the remedy you want.

I think part of this—it's difficult to tell, because all of the district courts are looking at these factors. In these two years, we have seen, I think, all kinds of different decisions, and not necessarily consensus. Some of the district courts are holding separate trials after judgment to then determine what the proper

⁵⁶See *Microsoft Corp. v. Commonwealth Scientific & Indus. Research Org.*, 2009 WL 440608, at *2 (E.D. Tex. Feb. 23, 2009).

payment is going forward, this future aspect of the license. I think Judge Rader said in his concurrence in *Paice v. Toyota*⁵⁷ that he thought it should go back to the parties and the parties should sit down and come up with a determination, a negotiation, of what the license should be.⁵⁸ But, of course, depending on their positions and what strengths and weaknesses they have, if they don't do that, it has to go back to the district court, and you may end up with the compulsory license.

So I think at this point it's hard to tell where you will end up. You have to be creative about it and be a little fluid in what arguments you put forward.

MR. GRIEM: I have some doubts that the idea that one of the things the court can do is to impose a compulsory license that is really consistent with the fundamental idea of an injunction. An injunction is—a hallmark is that there is irreparable harm.⁵⁹ I have argued that the fact that the royalties have already been determined and there are reasonable predictions about future sales means that you shouldn't get an injunction, because now you don't have irreparable harm. You have reparable harm, and you can figure out what the payment should be.

What do you all think about whether that can be squared with the idea of imposing a compulsory license with the terms that come with that kind of license?

MS. FERRI: I think there are a lot of companies that are—that very eventuality of a compulsory license seems inherently unfair. Maybe, practically speaking, what shakes out is that if you are a competitor and you have the irreparable harm, you are going to get the injunction, so you are just talking about situations, maybe, where there are non-practicing entities, so that the license seems fair. But I think in a circumstance where you feel that patent rights give you the right to exclude, the compulsory license just doesn't seem to be the right outcome.

⁵⁷ *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1317 (Tex. 2007) (Rader, J., concurring).

⁵⁸ *Id.*

⁵⁹ *See Savage v. Gorski*, 850 F.2d 64, 67 (2d Cir. 1988).

At that point, you feel like you have an adjudicated infringer, that there is willful infringement. There is some aspect of this—crafting a royalty just from past infringement doesn't take into consideration, I think, the situation you reach after adjudication of infringement.

MR. PUTNAM: One of the things that I'm confused about in this whole situation is, do you want to imagine the parties bargaining—let's suppose that the judge says, "Go try to work this out," and they come back and say, "We can't work this out." Do you say, "Let's take advantage of all the information we have today," and, in effect, do like you do in a reasonable royalty, in a hypothetical negotiation, and imagine the parties come to an agreement based on today's information? Or do you simply go back and say, "No. We're going to adhere to the deal that you would have made back at the time that infringement began?"

In other words, what is it about the injunction that allows you to take advantage of all the information that has accumulated since the time of initial infringement? That is going to yield sometimes vastly different terms, sometimes terms that are vastly more favorable to the defendant and other times vastly more favorable to the plaintiff, than would have occurred at the time of the initial hypothetical negotiation.

Without having thought about it more, it seems like there ought to be equitable reasons why someone should examine the assumption that we are going to bargain as of today. Maybe that's right, but I don't think that should be an unexamined assumption.

Then the question becomes—I think Jack's point is well-taken—are there actually sales projections or are there harms that can't be measured? For example, you may be competing for brand identification or something like that or a network effect, where it is, in effect, a winner-take-all market. I have a five percent probability of being a monopolist in this market if I can start right now. My projected sales projections are small, but I have a small chance of being very large. It's not really fair to say, "Well, we're going to give you a two percent royalty," or something like that, because the harm that you are facing is that you have a competitor that otherwise you wouldn't.

So I feel that the critical distinction is whether the plaintiff can point to harms that are non-monetary. That goes without saying. But you really need to be able to say—here's where an economist can help you—what are the things that are damaging to me, apart from the loss of sales, that are going to occur if I allow the defendant into my business?

PROF. STRANDBURG: It seems to me that a couple of things that come up when you start thinking about awarding damages or a royalty rate at the time when you already have the infringement in the past—it's different from just the reasonable-royalty calculation. You have to think a little bit more about what the terms of the license would have been. How long would the license have gone on? Normally you don't think about that if you are thinking about past damages. Would there have been in the license terms a chance of renegotiating rates or, depending on sales, would this and that have happened?

So it seems like it really complicates the idea of the hypothetical negotiation. I'm just kind of curious what judges are doing about that. Are some of them just trying to come up with a lump sum so that they don't have to have the parties back in front of them every year or two years? What are they actually doing?

MS. FERRI: I think, probably, in terms of just the way litigations flow, in terms of how long it takes you to get to a judgment, we are just starting to see that now. I think this is something that is going to kind of unfold over the years. At this point there are a number of decisions in terms of the remedies that have been crafted when an injunction hasn't been put in place. You have this compulsory license that has a reasonable-royalty aspect to it and some lump-sum payments. I don't think we have seen enough to really see any really creative outcomes of it. I think some of the questions are more to what kind of evidence the court is looking to and if they in some instances have a second trial after the first one, in terms of determining, forward, what the damages are going to be or that monetary remedy.

I think that's where maybe you see the creative kind of aspect of it, because, as you say, there is so much more evidence that's going to go in at that point in time, when they are an adjudicated infringer.

MR. GRIEM: I think courts are taking the discretion that *eBay* gave them,⁶⁰ and it's really empowering them to try to help the parties do that present negotiation that Jon mentioned. Instead of doing it when the infringement began—and you didn't know that you were infringing, but now you do—they can hold a hearing, give the parties time to talk, and then make suggestions that leave that uncertainty there,⁶¹ so that, as Jon mentioned in his talk, you have a situation where the parties have to try to think about the worst case and the best case and at least have a chance to come to some resolution. The deadline of the hearing where an injunction might issue, I think, certainly spurs them to either buy that certainty that comes with the settlement or take their chances.

If they decide they are both stuck in their positions and they either do or don't think an injunction is going to issue, the requirement of irreparable harm, I think, means that you could end up with pretty much a binary choice: there's an injunction prohibiting use of the invention in a particular field or the judge says, "There is a way for you to figure out the economic value. This is not irreparable harm. So I can't issue an injunction. What you are going to have to do is, having found this product to infringe, in a few years, towards the end of the patent, you are going to have to have another litigation where you quantify the damages that should have been quantifiable now if you had been reasonable. But I don't have the power to impose a license at this point."

MR. PUTNAM: One thing that I think is happening that is a mistake is some variation of the following fact pattern: suppose that the plaintiff has licensed with firm A for a five percent royalty. At trial, the jury sees that evidence and says the defendant should pay a five percent royalty also. Then, when it comes to an injunction, the court says, "Well, gee, five percent seems to be the royalty in the marketplace. The jury decided that. The plaintiff has agreed to it. I'm just going to impose five percent."

I think we have seen things that are roughly like that, and that's erroneous. The reason why is because, prior to trial, the patent was

⁶⁰ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

⁶¹ *Id.* at 396–97.

not valid and infringed. It had some expectation of being valid and infringed. But at trial, it is proven to be valid and infringed. So if you are bargaining over a valid and infringed patent, the rate should go up.

For example, suppose that the five percent royalty that was sort of the market benchmark was arrived at based on the following negotiation pattern: the parties agree that if the patent is valid and infringed, the royalty should be ten percent. But they think there is only a fifty percent chance that it's valid and infringed, so the settling party, party A, says, "I'll pay you five percent, because I think there is only a fifty percent chance that your patent is valid." So the plaintiff says, "Okay, it's a deal."

What should happen under those circumstances at trial is that you should now back out the uncertainty that was present in the initial negotiation and award a royalty rate of ten percent, not a royalty rate of five percent, because the factor that was present in the market negotiation is no longer present post-trial.

This obviously becomes a source of tremendous argument, because then the question becomes, how likely was it, in fact, that the patent was invalid or not infringed, and how is that uncertainty reflected in the original negotiation?

At trial, the plaintiff is looking for the highest royalty rate post-trial they can get, so they want to say, "Your Honor, we think that five percent royalty rate that we agreed to initially should be converted to a twenty percent royalty rate." The logical implication of that is to say to the plaintiff, "Oh, does that mean you only thought there was a one-fourth chance your patent was valid and infringed? You just got lucky here at trial? Is that what you mean?" because that's the implication of what they are saying.

Then the defendant might say, "Well, Your Honor, they agreed to five percent in the marketplace. We think that we should only pay eight percent." Then you can say to the defendant, "Oh, are you saying that there was a very high likelihood that this patent was valid and infringed? That's not what I heard from you last week in your closing arguments when you said that this patent was the trashiest thing you had ever seen."

So the parties have opposing incentives at the point of the injunction to argue about the market evidence that would support an increase in the royalty rate going forward. It makes it quite complicated for the court to sort out how much to bump up the market rate to reflect the resolution of the validity questions.

PROF. STRANDBURG: It seems to me that there is also a question of whether the court should do that. It depends on whether you think, as you were mentioning before, that the appropriate thing is to look at what the negotiation would have been before the litigation or after the litigation. I don't think we really know, at least from a legal point of view. Maybe from an economic point of view, there are ideas about that. Which is the appropriate time to be looking at?

MS. FERRI: I could see, too, that if we are talking about doing this—although it seems fairly—now it has issues of judicial efficiency. If you are having another trial later on, after the patent term is ready to expire and you are looking back, what other things are people going to enter into as evidence—“this is willful infringement, and I think that this rate should be trebled”? You can imagine that there are going to be a lot of factors, to say that the market has changed, and now this is much more valuable. There is going to be a lot of thought given to this, and a whole new set of evidence will be put in by the parties.

PROF. STRANDBURG: I'm going to ask one more question and then we are going to open it up to questions from the audience.

We have seen this one example—or at least there is one example—of the sort of *Qualcomm* approach, where we say, “Okay, you didn't know you were infringing, but now you do. So we will give you a certain period of time to fix it, and if you don't fix it by then, there will be an injunction.”⁶²

My question is, are there situations in which that wouldn't be a good approach? Or should we think that that should be the usual approach? Are there particular situations in which that approach

⁶² See *Qualcomm Inc. v. Broadcom Corp.*, 539 F. Supp. 2d 1214, 1220 (S.D. Cal. 2007).

would be problematic? That avoids a lot of these valuation problems, clearly, too. That's the thing in its favor.

MR. PUTNAM: I actually favor that approach, because it converts something that is a binary choice into something that is almost a continuous choice. In other words, if the injunction issues at infinity, then that's like no injunction. As you come forward from infinity to the injunction issues tomorrow, then that's your regular, straightforward injunction. So it allows you to convert something that is a 0,1 variable into a continuous variable, and you can express a lot of discretion in that choice.

The other thing that it does is, when faced with a valid and infringed patent and the prospect of an injunction, a lot of defendants will say, "Okay, we need to find a way around this technology," and so it actually operates to stimulate more R&D and investment in other technology, which is one of the main purposes of the patent system. So it's actually consistent with the larger goal, which is to find another way to skin this cat so I don't have to pay this slimy plaintiff the amount that she is asking.

So I actually think that it is, in principle, quite a good idea. The real question becomes—as I said, there are two evidentiary issues. One is, what is the product cycle? If you think that Intel's chip infringes some patent, the plants that are designed around these chips cost billions of dollars to build, and the next generation is not going to be built for four years. If you say an injunction is going to issue in four years, that essentially renders the patent worthless. But that's the product cycle.

On the other hand, it's going to issue in three years. That means that in three years Intel has to build a new plant and incur a five billion dollar cost a year early. That's an enormous amount of expense.

So you can't say, "Well, it should really issue at three years and ten months, because we want to give the guy twenty million dollars," or something like that. That sounds ridiculous.

The other question is, what's the onus on the defendant to start thinking of ways around this? You can sort of play a game of chicken with the court and say, "No, no, no, no, we're not going to think about alternatives. We have no alternatives until we get to

the injunction phase.” Presumably, you have been thinking about this case for several years. You should be thinking about what your next best alternatives are. If the defendant walks into the court after three years of litigation and says, “Guess what? We have no alternatives,” unless it’s sort of an Intel case, I would say, “Maybe this is a more valuable invention than you are really willing to admit, because you can’t think of a way not to use it.”

MS. FERRI: I just add, thinking about this while we are discussing it, it’s interesting because that aspect of the alternative and the designing around is a very normal practice within the International Trade Commission. It’s very standard within the proceedings there, because the respondents know that they are facing certain injunction if the patent is found valid and infringed.⁶³ So during the course of the proceedings there, very often you find the respondents actually come to the court with design-arounds. You can provide the administrative law judge with your design-around as part of the proceedings, and the judge will take a look at it and determine whether that is infringing or not.⁶⁴ So by the end of this proceeding, you already know what’s going to happen, that you can hit the market, so to speak, with the new product, if you are going to be hit with this exclusion order.

MR. GRIEM: I think that really illustrates the difference in the administrative sort of remedy that is embodied in the ITC,⁶⁵ where you have this certainty of process that focuses attention on dealing with the business after the inevitable might happen, while a court has more equitable discretion to fashion a remedy. They have to first find irreparable harm, but then, in fashioning a remedy, they have to consider the public interest.⁶⁶

Before *eBay*, it used to be that the only kinds of cases where you had a chance of not getting an injunction were in medical

⁶³ 19 C.F.R. §§ 210.50–.51 (2008).

⁶⁴ BARRY L. GROSSMAN, PATENT LITIGATION STRATEGIES HANDBOOK 63 (BNA Books 2000).

⁶⁵ See U.S. Int’l Trade Comm’n, Intellectual Property Infringement and Other Unfair Acts, http://www.usitc.gov/intellectual_property (last visited Nov. 14, 2009).

⁶⁶ See *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (citing *Amoco Prod. Co. v. Gambell*, 480 U.S. 531, 542 (1987); *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311–13 (1982)).

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device or product cases, where the health of the public would suffer if an injunction issued, because the plaintiff couldn't meet the market demand and the public would thereby suffer, because there wouldn't be enough medicine or product to serve them.

But now you have a situation where every company can say, "Here are all the things that are going to inconvenience me if you issue an injunction. I have to do this design-around that I have been putting off. I have to do a recall. I have to explain to my customers. They're going to think that I am not as smart or good as I was before. But then they will be deprived of the benefit of my product. I have tried so hard to give them the benefit of this product."

The Federal Circuit's reaction to all that used to be, "Well, you took a bet. You lost it. This is what happens. You suffer the injunction. We are not going to even let you burden us with all of that."

But now the court has to do all this. That's why they are holding separate hearings in order to hear through all this. Sometimes it ends up being persuasive. I think it looks like a benefit to the public when you do that, if you don't issue an injunction, because you still get the product. But in the end, it just rewards companies for being big and stupid and slow, or at least pretending to be big and stupid and slow. They have managed to shift the cost of their infringement back onto the party that has been founded, invented, and has been infringed.

MR. PUTNAM: You mean small companies like General Motors, right?

PROF. STRANDBURG: Let's open it up and see what questions we have from the audience.

QUESTION: I think it was Jonathan who mentioned that prior settlements or licenses were not admissible. Does the panel have an idea as to how to correct that, if they think that's something that is worth achieving?

MR. PUTNAM: The question was, is there some way of changing the general rule that settlements to litigation are not admissible in subsequent litigation?

I taught at a law school, and I know enough to know that that's a question of evidence. So not being a lawyer, I'm going to refuse to answer it.

PROF. STRANDBURG: Does anyone else want to take that one?

MS. FERRI: Changing the rule on that I think is difficult. It's not really something you can change. What you have to do is find a way to work around it and deal with it. That would be in terms of the negotiations that you are going to have. In terms of whether you can get that before the judge or the jury, you won't be able to, but I think that you can take that into consideration in how you are dealing with the case.

That's probably a lot of what we were talking about throughout the panel in terms of the negotiation stance of either party and that that will certainly be an issue that can kind of force settlement and have something to do with what kinds of terms you get in your licensing.

PROF. STRANDBURG: I do think that the *eBay* case opens up some of these evidentiary questions for argument. You can always argue that after *eBay*, the damages questions that courts are facing are now different. Therefore, different evidence is now relevant, and you make an argument for whatever evidence you want. It may be that courts might be willing to hear those arguments and see what they are doing a little bit differently than they did before *eBay*.

In other words, any new decision like that is a wedge to make an argument that maybe should have been successful before. You can always try it again. So I do think that there is an opening to make those arguments.

How the Federal Circuit, in the end, will respond to it, who knows?

MR. GRIEM: I think you have hit on something very important. The rule is set up to protect juries from being misled. The hypothetical negotiation is supposed to happen with this assumption that the patent is valid and infringed, and how you are having a negotiation from that point. The settlements based on

litigation don't have that assumption in them. That's why they are excluded as irrelevant and prejudicial.

But when you have the hearing about the remedy, the injunction remedy, now the jury isn't there.⁶⁷ Now it's the court exercising discretion, and the court can take whatever evidence it wants into consideration.⁶⁸

MR. PUTNAM: I can't resist—this is coming from an economist, so it's actually legal content-free.

There are lots of policy reasons for not including settlements of litigation. But you could imagine the defendant asking that the plaintiff be estopped from arguing, for example, that there is no established royalty. It's just not true that everybody else in the industry hasn't signed up to license these patents on terms that are vastly different from the ones that the plaintiff is claiming. You might ask for a motion *in limine* to prevent the plaintiff's expert from testifying as though that were not the case. Even if you didn't want to produce the agreements themselves, there might be a way of redacting them or summarizing them, or at least preventing the plaintiff from misrepresenting their existence, without actually disclosing them. That might be a way in.

As an economist, it frustrates me, because it's data. It's good data. No, it's not comparable to the situation you are in, but it's the best data you have. You should work with it and adjust it, the way you do all other data.

QUESTIONER: In the example you gave, the market data was around \$4.4 million.

MR. PUTNAM: Yes.

QUESTIONER: But they were awarded \$535 million.

MR. PUTNAM: The question was, in the example that I gave, based on the defendant's market share, the predicted settlement

⁶⁷ See FED. R. CIV. P. 65(a)(2).

⁶⁸ See David V. Radack, Injunctions in Patent Infringement Cases, <http://www.tms.org/pubs/journals/JOM/matters/matters-9712.html> (last visited Nov. 14, 2009) (“Balancing the harms of the plaintiff and defendant is very fact specific and is basically a way for the court to exercise its discretion in granting or withholding a preliminary injunction.”).

was about \$4.4 million. The plaintiff was asking for \$535 million. The case didn't actually go to trial. But that was the disparity.

QUESTIONER: What I was going to say is, if they did get the \$535 million, could you not get an injunction against—

MR. PUTNAM: Right now, as far as I know, there is no legal connection between the size of the damages settlement and the prospect for an injunction. So you could get both, which just seems to me like vastly double-counting.

PROF. STRANDBURG: That's a question, whether a judge might take that into account in determining—it's not one of the four factors,⁶⁹ but whether the judge might nonetheless take that into account in determining whether to grant an injunction.

MR. PUTNAM: If it were a close case—and that's not a close case—the plaintiff might say, "That does not fall within the four-factor test. That was then; this is now. We are talking about retrospective versus prospective remedies. You can't contaminate the two." I think that's wrong, but somebody needs to decide that.

PROF. STRANDBURG: Yes, exactly.

QUESTION: The last speaker talked about patent trolls. After *eBay*, have you seen a reduction in the number of patent trolls or lawsuits brought by patent trolls, or patent-holding companies?

MR. PUTNAM: From the point of view of actually computing data, it's hard to define a patent troll. For example, within my company, when we are looking at whether to take a case or not, I have an internal checklist of fifteen factors that make it more or less likely that the plaintiff is a troll, and you sort of score on that scale. It's hard to say.

I think the overall number of patent cases is down from two years ago or three years ago.

MS. FERRI: Slightly, yes.

MR. PUTNAM: Slightly, yes. There hasn't been a vast reduction. It's hard to say that *eBay* has caused the trolls to disappear. I don't think that's true.

⁶⁹ See *eBay*, 547 U.S. at 391 (identifying the four relevant factors).

MS. FERRI: I don't think so. At least in my practice, I don't think so. I agree that it's really hard to categorize every one that is a non-practicing entity as a patent troll—with that pejorative, let's say. As I mentioned, I have seen this movement of some of the cases into the ITC in order to benefit from the idea that you will get the injunction.

But I think, generally speaking, those cases are going strong, and *eBay* hasn't necessarily diminished them. I think it has just changed, perhaps, how you approach it. We mentioned with the *CSIRO* that some of these companies now are trying to do a bit of research or have a research arm, subsidiary, and put some resources into that and just trying to maybe recast themselves a bit.

MR. GRIEM: Just a final note. I don't think you can trust the numbers. The classic troll case has twelve defendants. You sue an industry. Is that one case or is it twelve?

MR. PUTNAM: I think you are just now getting to the point where cases that hadn't been filed by the time of the *eBay* decision are getting to the point of being tried and going to judgment.

The question you are really asking is, how has it changed incentives? It's not, how did it change cases that were already pending when *eBay* was handed up? I think it is too early to tell, based on cases that are filed after *eBay*, whether—I haven't seen any change in behavior, but it's too early.

MR. GRIEM: My response to that would be that every plaintiff has a different story, and I think it's misleading, and ultimately not very useful, to try to create a category called "troll." There are a number of well-known patent-holding companies or individual inventors—people like Lemelson or others—that big business has considered to be trolls, a drain on their innovation. But I can tell you that every one of them, if you talk to them, has a great story to tell about innovation and developing intellectual value and talking about the history of the American inventor in the garage. It's a very powerful story, and I don't think that it's really productive to say that there is this group and we need to find strategies.

MR. PUTNAM: And some of those stories are even true.

MS. FERRI: I think where you may see some of that is if you examine the various amicus briefs that were filed in the *eBay v.*

MercExchange case.⁷⁰ You go through them and you can see that there was a real—you may not be able to pick out, based on the company, where they are falling. You have a company, for instance, like Qualcomm, who you think of in the past as maybe being part of manufacturing, but they are very big in just development and licensing now. They actually were more in line with *MercExchange*,⁷¹ where Microsoft and all these other companies were falling more in line with eBay in terms of the sides they were taking in the case.⁷² I would imagine in a lot of these companies that there was a lot of internal discussion on which side they would support in that case. You find a little bit of both in terms of this inventive process. You find that everywhere.

PROF. STRANDBURG: I heard recently of someone who was trying to do something like this, by trying to look at the effects on share values of publicly traded companies that filed amicus briefs in Supreme Court cases. Their work is unpublished. But it sounds to me, so far anyway, as though the results are pretty inconclusive—for what that's worth. You can keep a lookout for that paper, which will come out, I assume, at some point.

QUESTION: Jonathan, I have a question regarding the standard type of case that you talked about. Research in Motion

⁷⁰ See, e.g., Brief for General Electric Company et al. as Amici Curiae Suggesting Affirmance, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130); Brief for Technology Patents & Licensing, Inc. et al. as Amici Curiae Supporting Respondent, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130); Brief for the United States as Amicus Curiae Supporting Respondent, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130); Brief of American Innovators' Alliance as Amicus Curiae in Support of Petitioners, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130); Brief of the American Bar Association as Amicus Curiae Supporting Respondent, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130); Brief of Various Law & Economics Professors as Amici Curiae in Support of Respondent, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130).

⁷¹ See, e.g., Brief of Amici Curiae Qualcomm Incorporated and Tessera, Inc. in Support of Respondent, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130).

⁷² See, e.g., Brief Amici Curiae of 52 Intellectual Property Professors in Support of Petitioners, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130); Brief of American Innovators' Alliance as Amicus Curiae in Support of Petitioners, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (No. 05-130).

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had a portfolio of intellectual property.⁷³ I assume you are an expert in valuation or an economic expert?

MR. PUTNAM: I do do that, yes.

QUESTIONER: Drilling down past the economic value of the patent if it's valid and infringed, how would you further drill down into what component that comprises of the portfolio to make the BlackBerry?

MR. PUTNAM: I actually know exactly the answer to that question. I can cut to the chase and tell you that you are feeling very sleepy—

QUESTIONER: No. I have a CPA.

MR. PUTNAM: Oh, we can have lunch, then, and keep each other awake.

I'll give you the thirty-second answer to this question. I developed a method for exactly these types of cases. I testified against the expert who was NTP's expert. So I prepared it basically for him and people like him. I testified against him in February.

The method is called "Count, Rank, and Divide." What it comes down to is saying, let's find the set of patents that are embodied in a particular device, which turns out to be quite difficult sometimes. But let's assume you can do that. Let's rank them according to importance. We don't know what their importance is exactly, but you can use various economic indicators as a proxy for importance—

QUESTIONER: Would part of that be whether or not there are existing licenses, so that if one is not licensed at all but is exclusively owned and is said to be exploited, that might be the most important one, versus ones that are cross-licensed as part of normal standards for other devices?

MR. PUTNAM: There are various criteria. I try to keep it simple, because that data is missing as to whether something is licensed and under what terms. You have to start looking at

⁷³ See, e.g., U.S. Patent No. 7,362,898 (filed July 26, 2007); U.S. Patent No. 7,369,089 (filed July 13, 2007); U.S. Patent No. 7,375,658 (filed June 22, 2007); U.S. Patent No. 7,432,831 (filed Apr. 17, 2007); U.S. Patent No. 7,334,952 (filed Apr. 10, 2007).

contracts. There are sixteen patents licensed or it's a cross-license—it's hard to say what it means by "a licensed patent."

I actually use a version of patent citations as a way of ranking something, which, the economic literature shows, is correlated with value. Once you have established that there are, say, 200 patents in a BlackBerry and that the asserted patent ranks 50th of those 200 patents, let's say, the question is, can you find a way, based on the economic literature, to say what the share of total value is of the 50th patent? The answer is yes. I published on this.⁷⁴ I wrote my dissertation on it. There are about eight people that have published on this. It's a very small niche of the economic literature.

But you can actually sit down and figure this out. You say the 50th-ranked patent out of 200 can't be worth more than X percent of some pie. Then you say, what is the pie? Is it all of the BlackBerry's profits over the past fifteen years or the next twenty years or whatever? You decide the pie and then divide it according to these shares and award this 50th-ranked patent its share.

Typically, if you do that, unless it's like the number one patent, you are going to get a very small share of total value, because it has to be split with 199 other ones.

I can send you an email that will describe it in more detail.

PROF. STRANDBURG: Do we have another question? Mark?

PROF. PATTERSON: I have a question that sort of follows up on that or is related to that. It seems to me, though, that to do that, you have to really decide—we don't think of the patents in the licensing context, in the valuation context, as having some sort of inherent value based on their technology. We think of them as having some value based on what they can do in the market. Suppose Research in Motion has nine patents that you think are also valuable. To decide whether NTP is asking too much, you have to look at those and decide whether there are non-infringing

⁷⁴ See, e.g., Jonathan Putnam, Jean Lanjouw & Ariel Pakes, *How to Count Patents and Value Intellectual Property: The Uses of Patent Renewal and Application Data*, 46 J. INDUS. ECON. 405 (1998).

alternatives to—you would have to have a meaty trial on each piece—which is great for you, if you are the expert—on each piece of Research in Motion’s technologies, as well as NTP’s.

I just don’t know how that wouldn’t get too unwieldy—in addition to the fact that we have this view, in the patent-pooling context and in others, that if each element is needed, each element is essential in some ways. So doing it this way is a little bit circular, in the sense that you are deciding that the value is based on components. But that’s really the problem. NTP would say, “No. Any patent that is needed is 100 percent of the value. Each of them that is needed is 100 percent of the value.” You are just saying, “No, that isn’t the way it is.”

But I think the Federal Circuit—in the *Phillips*⁷⁵ case, for example—says that is what it is: if any patent is needed, you are sort of entitled to extract the whole value of the invention out of that.⁷⁶

So I think your economic approach seems to go contrary to the Federal Circuit’s legal one.

MR. PUTNAM: I’m going to say two things. I find this topic absolutely fascinating. It’s also not what we are talking about on this panel.

Since this is a law school, I should give a legal answer. The legal answer is that I’m trying to implement *Georgia-Pacific*⁷⁷ factor thirteen,⁷⁸ which is to credit the invention and separate the value of the invention from all the other inputs that are added by the infringer.⁷⁹ *Georgia-Pacific* factor thirteen actually implies some kind of apportionment, and that’s what I’m trying to do. I would say that’s the legal basis for doing it.

⁷⁵ See *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

⁷⁶ See *id.* at 1323 (rejecting the idea that the claims of a patent describing a single embodiment must only be limited to that specific embodiment).

⁷⁷ *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

⁷⁸ *Id.* at 1120 (considering one of the factors in determining a reasonable royalty in a patent license to be “[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.”).

⁷⁹ *Id.*

As to how it works mechanically, I really will bore everyone here—

PROF. STRANDBURG: Not everyone.

PROF. PATTERSON: It's interesting that the Federal Circuit at times seems to ignore that. That was what the Eastern District of Pennsylvania in *Georgia-Pacific*⁸⁰—generally, the Federal Circuit sort of goes along with it.⁸¹ But sometimes it seems to say, “No. We're going to take a somewhat different approach.”⁸²

MR. PUTNAM: Patent damages jurisprudence is smack-dab in 1875.

PROF. STRANDBURG: Do we have other questions?

(No response)

I think we had a fantastic panel. I thank our panelists again.

We will adjourn until 11:30.

⁸⁰ *Id.*

⁸¹ *See, e.g.*, *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1386 (Fed. Cir. 2001) (affirming the *Georgia-Pacific* factors as providing ample evidentiary support for a resulting royalty rate); *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899 (Fed. Cir. 1986) (upholding a lower court's determination of royalty based on subtracting the value of infringing devices from the infringer's net profit).

⁸² *See, e.g.*, *Imonex Servs., Inc. v. Munzprufer Dietmar Trenner GMBH*, 408 F.3d 1374, 1380 (Fed. Cir. 2005) (rejecting appellant's claim that factor thirteen was pertinent to a calculation of damages); *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1578 (Fed. Cir. 1998) (refusing to apportion based on the *Georgia-Pacific* factors).