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## *eBay v. MercExchange and Quanta Computer v. LG Electronics*

LAWRENCE SUNG: Good morning everyone. My name is Lawrence Sung and I am a professor and the Intellectual Property Program Director here at the University of Maryland School of Law. I want to welcome you all here to this year's Business Law Roundtable, focusing on an intellectual property law issue. The Business Law Roundtable is sponsored by the School's Intellectual Property Law Program and the Business Law Program, directed by Professor Lisa Fairfax. In addition, it is co-sponsored by our *Journal of Business & Technology Law*. We have a number of *Journal* staff members here today, and I want to recognize the outgoing Editor in Chief, Ben Peoples, as well as the incoming, Bryan Saxton, for their support in making this roundtable possible.

Right at the outset, let me recognize a number of individuals, because, of course, there is a huge difference between the theory about a conference like this, and making it look effortless through the implementation. We owe our appreciation to LuAnn Marshall, Mary Jo Rodney, Lowell Wilson, Jamie Smith, and particularly Ellen Smith, who has been instrumental in coordinating with our speakers, as well as putting the program together from the start.

The format today is going to focus more on the question/answer session as opposed to hearing formal presentation after formal presentation. I will speak to that in just a moment. What we are trying to accomplish here, if you look at the overall scope, is rather ambitious. There are a number of really key issues in terms of how intellectual property law is evolving. One of the things that I think about when we talk about a scope of this size is my undergraduate astronomy final exam question, one of the most daunting I have ever had, and which some of my students have heard already: "Describe the origins of the universe, but be brief." Part of it is trying to encapsulate all of the thinking we have today in these short panels, which are principally an introduction to this topic, and I would imagine, to some degree, an oversimplification. I have a very modest role today, introducing the speakers and

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\* The annotations included in the footnotes are not the views of the individual speakers, but are provided for the reader's knowledge. The remarks were edited for clarity and readability.

moderating the first panel, and I will also introduce Professor Kelly Casey Mullally, who will moderate our second panel.

Let me tell you a bit more about the setting for today's conversation, introduce some of the cast of characters, and provide a little bit of background for the topic. Like any good story, there is a degree of mythology involved, so I am sure that to the extent there are controversial topics today, our experts are going to be able to debunk some of what I am about to tell you.

It is not really hyperbole to say that intellectual property laws are in some degree of turmoil. There is a changing viewpoint of public perception as to what intellectual property is designed to do. For example, what happens when the Recording Industry Association of America goes after fourteen-year-olds for copyright violations because of illegal music downloading? How do we feel about respecting various laws and rights that reflect the intellectual properties that we talk about? We merely glance at the click-through licenses when using software or working on Internet sites. At this point in time, it is a virtually Pavlovian response. We click "okay" without even knowing what "okay" might or might not mean. Similarly, patents are not necessarily the ingenious drivers of innovation that we might have regarded them to be several decades ago.<sup>1</sup> Now, it is more frequent to pick up any media outlet, whether it be the news services, print media, or even YouTube, and find that people are really railing against patents because they see them as obstacles to innovation and commercial development.

Now, add to all this the Supreme Court's renewed viewpoint on intellectual property, particularly patents.<sup>2</sup> Until the Court's recent terms, we had not seen this

1. The Constitution originally recognized the power of patents "[t]o promote the [p]rogress of [s]cience and useful [a]rts." U.S. CONSR. art I, § 8, cl. 8. In the past several decades, the Supreme Court has reiterated many times the philosophy that a patent is "a reward, an inducement, to bring forth new knowledge." *Graham v. John Deere Co.*, 383 U.S. 1, 8–9 (1966); *see also Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies . . . [to promote] the 'Progress of Science and useful Arts.'"); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) ("First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public."); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974) ("The patent laws promote . . . progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens."); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229–31 (1964) (indicating that patents "are meant to encourage invention by rewarding the inventor with the right . . . to exclude others from the use of his invention" for a period of time using "uniform federal standards . . . to promote invention while at the same time preserving free competition").

2. *See* William D. Belanger, *Patent Reform Act and Case Law Updates: Impact on Patent Litigation*, PAT. LITIG. 2008, Sept.–Nov. 2008, at 65, 67 & n.2 ("The past several years have seen a trend in the case law that is seen by many as weakening the rights of patent holders."). Since 2006, the Supreme Court has "rejected the Federal Circuit's prior standard for proving obviousness . . . lower[ed] the threshold for licensees and other potential patent infringers to bring a declaratory judgment action . . . and eliminated the presumption that the owner of a valid patent was entitled to injunctive relief." *Id.* at 67 n.2.

level of intellectual property activity in decades.<sup>3</sup> How does that renewed interest reflect something that might be happening?

We can look at it and ask whether it is an enhanced questioning with regard to the way the patent laws have been administered,<sup>4</sup> or just a frank recognition that intellectual property and patents are part of a larger business dynamic that needs to be considered.<sup>5</sup> To what extent is intellectual property a specialty, something that needs to be treated on a different footing? Some of the threads include issues about judicial activism: to what extent are the courts arguably overstepping their bounds? There have been questions about courts specializing.<sup>6</sup> The U.S. Court of Appeals

3. See Robin L. McGrath & Stan Hill, *Recent Developments in Patent Law and Its Impact on Patent Litigation*, PAT. LITIG. 2008, Sept.–Nov. 2008, at 95, 99 (“Without question, the Supreme Court has been much more active lately in the patent arena, addressing no less than five patent-related decisions in the last three terms alone. In each of these instances, the Supreme Court has reversed the Federal Circuit, in some cases overruling long standing Federal Circuit doctrines.”). Cases that are a part of this recent activity include: *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008); *KSR International Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007); and *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). *Id.* at 99, 103, 105, 109.

4. In general, to get a patent, an inventor must apply to the U.S. Patent and Trademark Office (“PTO”). 35 U.S.C. § 2 (2000). In the application, the inventor must prove that his invention or discovery is new and useful. *Id.* § 101. The PTO examines the patent application. *Id.* § 131. If the application is lacking, the PTO will reject it, and the inventor can persist in his claim for a patent, wherein the PTO will examine the application again, *Id.* § 132(a), or the inventor can request continuing examination. *Id.* § 132(b). The inventor can also appeal the rejection to the PTO’s Board of Patent Appeals and Interferences. *Id.* § 134(b). Furthermore, the Board of Patent Appeals and Interferences’ decision is appealable to the Court of Appeals for the Federal Circuit. *Id.* § 141. If the subject is ultimately deemed patentable, the PTO will issue a patent. *Id.* § 151.

Once issued, patent validity can be contested several different ways. First, any person at any time can request either an *inter partes* reexamination, or an *ex partes* reexamination from the PTO. *Id.* §§ 311(a), 302. A request for reexamination may only be made in light of newly discovered prior art that bears on the patentability of the patent. *Id.* § 301. Additionally, in civil court, a third party can also defend accusations of infringement by saying the patent is invalid. *Id.* § 282. Patentee rights may be enforced through infringement suits brought in civil courts. *Id.* § 281.

5. See generally Richard A. Mann et al., *Starting from Scratch: A Lawyer’s Guide to Representing a Start-Up Company*, 56 ARK. L. REV. 773, 775–77, 801–05 (2004) (noting that for businesses, “[e]ach form of intellectual property protection has its advantages and disadvantages” and a company must be strategic when applying for patents because although “[p]atents provide much stronger protection” than trade secrets, they “require complete disclosure of the invention”). Intellectual property also influences the type of business entity a company decides to pursue because different types of intellectual property require different types of investors, which in turn require different types of business entities. *Id.* at 805. Intellectual property and patents are the cornerstones of many businesses and investors are often attracted to a particular company because of the size of their patent portfolio and the integration between a company’s intellectual property and the business itself. Michael H. Brodowski, *Making Intellectual Property Portfolios Attractive to Venture Capitalists*, in INTELLECTUAL PROPERTY IN BUSINESS ORGANIZATIONS: CASES AND MATERIALS 139 (Richard S. Gruner et al. eds., 2006). Intellectual property also influences the types of deals that businesses enter into because, although such businesses are often very attractive to venture capitalists, intellectual property is an intangible asset and difficult to value or predict. See Manuel A. Utset, *Reciprocal Fairness, Strategic Behavior & Venture Survival: A Theory of Venture Capital-Financed Firms*, 2002 WIS. L. REV. 45, 48–49, 57–58.

6. See generally Virginia L. Carron & F. Leslie Bessenger III, *The ITC vs. Federal District Courts: Comparing the ITC and the Six Fastest District Courts for Patent Litigation*, PAT. LITIG. 2008, Sept.–Nov. 2008, at 99, 109–16 (naming the following federal district courts as being preferred by patent litigants because of their speed in resolving issues and familiarity with patent law: the Eastern District of Virginia, the Eastern District of Texas, the Western District of Wisconsin, the Central District of California, the Middle District of Florida, and the Western District of Washington). The International Trade Commission (ITC) is also a popular venue for

for the Federal Circuit was designed, initially anyway, to bring some uniformity to the administration of the patent laws nationwide.<sup>7</sup> Has it done that? Has it achieved that purpose? And is it doing more? This is one of the issues that needs consideration.

Ultimately, some of the challenges with the way the Supreme Court has been handling the patent cases deal with subject matter, which in some ways distills down to a question: is there something that should be taking place on the front end of the way that relationships are structured and competitive dynamics are achieved? If you look at the Supreme Court's questioning during oral argument throughout *Quanta Computer, Inc. v. LG Electronics, Inc.*,<sup>8</sup> Chief Justice Roberts basically said that would we not be having less costly patent litigation—would we not even be here today—if we had better business lawyers involved on the front end dealing with these relationships? Why is this not just a matter of what the parties had agreed to, and whether they had introduced ambiguity into the relationship? Well, they are at risk of having that construed in a manner they are not otherwise happy with.<sup>9</sup>

One of the other, less pretentious ways of looking at today's discussions is: is everything I need to know about intellectual property what I learned in first year contracts? Is there really something more to it than that? That will be the last portion we knead through as one of the threads here.<sup>10</sup>

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resolving patent issues because the administrative law judges that preside over the hearings have experience with patent laws and understand complex technologies. *Id.* at 107; see also Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889 (2001) (providing empirical evidence that forum shopping does occur at the district court level for patent cases).

7. Robert P. Taylor, *Patent Law in Flux: Echoes of the Supreme Court*, 14th ANN. INST. ON INTELL. PROP. L., Sept.–Oct. 2008, at 93, 98–99 (“Congress established the Federal Circuit in 1982 to effect a widely perceived need for more consistent application of federal patent law. At the time, the regional circuit courts of appeals varied widely in their handling of patent disputes, often leading to a race to the courthouse in important cases.”).

8. 128 S. Ct. 2109 (2008). In *Quanta*, LG licensed several patents to Intel, and Quanta purchased some of the Intel products to use with non-Intel parts. *Id.* at 2113–15. LG then filed a complaint against Quanta alleging Quanta's use of the Intel products along with the non-Intel parts constituted infringement. *Id.* at 2114. The Court found for Quanta because LG's license agreement with Intel did not limit Intel's ability to sell the product, and an authorized sale of the product exhausted the rights of the patent holder. *Id.* at 2122.

9. Chief Justice Roberts indicated that parties will run the risk of having the Court decide the meaning of their contracts for them if their respective counsels cannot draft very specific license agreements. Transcript of Oral Argument at 8, *Quanta*, 128 S. Ct. 2109 (No. 06-937) (“So the parties are unwilling to spell out exactly how this is going to work out in their contract, and each side, it prefers to take their chances on how the Federal Circuit's going to rule. It is easier to sell these things if they are not encumbered by these additional license requirements and the manufacturer presumably gets a lot more, but there is a lot of uncertainty, uncertainty that could have been cured by how the contract was drafted, and people prefer to live with that uncertainty and litigate rather than clear it up in the contract.”).

10. When a patentee wants to license his patent so that another may use it, state contract law governs that license. See, e.g., *Lear, Inc. v. Adkins*, 395 U.S. 653, 660–62 (1969) (holding that a “licensing agreement is solely a matter of state law”); *Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d 1082, 1085 (Fed. Cir. 1989) (“A license agreement is a contract governed by ordinary principles of state contract law.”); *In re CFLC, Inc.*, 89 F.3d 673, 677 (9th Cir. 1996) (“The construction of a patent license is generally a matter of state contract law. . . .”).

The speakers will be discussing their particular perspectives and their backgrounds with respect to these issues. But, by and large, the bulk of the time of the panels will be reserved for questions from members of the audience as well as among panel members through some of the issues that are raised.

Let me give you a sort of a fictionalized account. When Albert Einstein was discussing his theory of relativity, he would go from academic institution to academic institution to share his theory, to talk about its precepts. People would listen and then introduce their own questions and concerns. Einstein was driven regularly by a trusted chauffeur from one institution to another. The chauffeur would take him from one to the other, follow him, listen to all of the speeches, and take him to the next institution. It was a very rigorous time schedule, much like that of a rock star. At about the fourth institution afterwards, the chauffeur would turn to him and say, "Professor Einstein, with all due respect, I need to tell you that I have heard you give the exact same speech at the last four institutions. I have heard it so often that I am pretty sure I could give the exact same speech next time." Einstein being the sort of guy he was, said, "You know, you are absolutely right. I am kind of tired. This schedule has been sort of overwhelming. Do me a favor, at the next institution, you get up and give the talk."

So, at the next institution, the chauffeur gets up and gives a flawless rendition of what he had heard previously. At the conclusion of the talk, people's hands went up and one person asked a question. The chauffeur, not to be put off, immediately said, "That is a very interesting question. Actually it is so fundamental, I am going to have my chauffeur come up and tell you the answer."<sup>11</sup> It is just one of these parables that talks about the importance of being able to work with individuals. We are quite fortunate today to have our very own resident Einsteins for a period of time to be able to answer direct questions about these very intriguing topics.

Our first presenter today is Professor F. Scott Kieff. Professor Kieff is a law professor at the Washington University in St. Louis. He is also a research fellow at the Hoover Institution at Stanford. He joined the faculty at Washington University following a series of visiting assistant professorships, one at the University of Chicago Law School and another at Northwestern University School of Law. He has also been a visiting professor at Stanford Law School. Prior to that time, he was an Olin Center Fellow for Law, Economics and Business at Harvard Law School. Before entering the legal academy, he was in private practice with the firms Pennie & Edmunds and Jenner & Block. In 2005, he was appointed to the U.S. Court of

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11. This story is an often-told fictional parable with roots in Jewish folklore. Driven to Succeed, <http://www.snopes.com/humor/jokes/chauffeur.asp> (last visited Oct. 19, 2008). See, e.g., Andrew Lorenz, *Lopez to Drive VW on a Lean Mixture*, SUNDAY TIMES (UK), Mar. 21, 1993, at 3 (quoting the Einstein parable as told by Spaniard Jose Ignacio Lopez de Arriortua). Tales that teach the same lesson, but utilize different main characters, abound. See, e.g., Larry Stewart, *He Passed on Pitch from Cosell*, L.A. TIMES, Feb. 11, 2008, at D2 (using Tommy Lasorda and a cab driver as the two main characters); Reader's Digest.com, *Humor in Uniform*, <http://www.rd.com/clean-jokes-and-laughs/9536590/article9536590.html> (last visited Oct. 19, 2008) (using a Marine Benefits Specialist and the corporal assigned to drive him as the two main characters).

Appeals for the Federal Circuit as a member of the Court's Appellate Mediation Panel, where he served until November 2007. His background is in molecular biology, with a degree in molecular biology and applied microeconomics from the Massachusetts Institute of Technology, where he was awarded a two year fellowship by the National Science Foundation for research in molecular genetics at the Whitehead Institute. He is a graduate of the University of Pennsylvania Law School and served as a law clerk to the Honorable Giles S. Rich on the U.S. Court of Appeals for the Federal Circuit. He is the editor of *Perspectives on Properties of the Human Genome Project*<sup>12</sup> and the co-author of a treatise that is near and dear to our hearts, *The Principles of Patent Law*,<sup>13</sup> now in its third edition.

Following Professor Kieff is Professor Andrew Beckerman-Rodau, Professor of Law and Co-Director of the Intellectual Property concentration at the Suffolk University Law School in Boston. Professor Beckerman-Rodau is an engineer and a registered patent attorney. Prior to joining Suffolk, he was a tenured professor at the Ohio Northern University College of Law. Professor Beckerman-Rodau has practiced with various law firms and corporations in Massachusetts, New Jersey, and Pennsylvania. He was a lecturer in law and research fellow at Temple University in Philadelphia. He is a prolific author as well, with published articles on business associations, computer software, and intellectual property, and has published a student's guide to estates and future interests. He received his undergraduate degree from Hofstra University, his J.D. from Western New England College, and an L.L.M. from Temple University.

Last, but certainly not least, in our morning panel, is Thomas Woolston. Mr. Woolston is himself an inventor, with a number of important online auction technology patents to his credit. Principally, he is the founder of MercExchange, a company involved in one of the cases we will discuss today. Mr. Woolston received his undergraduate degree in electrical engineering and his law degree from George Washington University. He has worked for the Central Intelligence Agency and served in the U.S. Air Force. In the mid-1990s, Mr. Woolston filed his first patent application for online auction technology and later moved on towards patents which eBay was originally interested in purchasing, but later decided to infringe. We will hear more about that with regard to the specific case later.

Without further ado, let me introduce you to Professor Kieff. Thank you.

F. SCOTT KIEFF: Thank you very much to everyone for coming and thank you very much Lawrence for putting this together, and of course to Kelly, Patricia, other faculty members, Ellen and all of the other students. It is a wonderful treat to be here, it is a great school, and a great group of folks. I will talk a little about a set of ideas that explain why I became an academic—what I think can be exciting about

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12. PERSPECTIVES ON PROPERTIES OF THE HUMAN GENOME PROJECT (F. Scott Kieff ed., 2003).

13. PRINCIPLES OF PATENT LAW: CASES AND MATERIALS (Donald S. Chisum et al. eds., 3d ed. 2004). After the symposium, the fourth edition of the book went to print. PRINCIPLES OF PATENT LAW: CASES AND MATERIALS (F. Scott Kieff et al. eds., 4th ed. 2008).

the interface between academics and practice and represent really some joint work. I want to thank my colleagues for this—this work comes out of a project we recently launched, the Hoover Project on Commercializing Innovation. What the Project is trying to do is think about the set of legal and business relationships one can use to wrap around ideas and bring those ideas to market. It looks at this variety of topics, in a sense a broad group of topics linked together, and the way they impact the process of bringing ideas to the market. The group has a set of different ways in which it tries to act. Its contribution to health care is an absolute cure for insomnia with academic books—those can zonk anyone out. The group tries to be a little punchier, so we wrote an op-ed in the Wall Street Journal. We decided that showing up in popular debates really means showing up at the Supreme Court, so we have been writing amicus briefs. We try very hard to interact with the real world, so I enjoyed serving on the Federal Circuit's Appellate Mediation Panel. I still do mediation and arbitration and now I serve on the Public Patent Advisory Committee. The group tries very hard to work with real lawyers in solving real problems, in part because we recognize that a lot of folks think that academics have a corner of the market in figuring things out, but we have found that real lawyers and real clients really figure a lot of things out on their own and can really help us. So we hope that you will contact us on the web and help us in figuring out these issues because we really do want to continue to interact and get that input.

The United States, even today with the economy tanking according to some people, is still a pretty wealthy place. If you look at the gross domestic product per capita, we are all the way over on one side of the chart.<sup>14</sup> Of course, there are places like Qatar that are a little further over; that is because they have a lot of GDP and not a lot of capita—there are not many people and there is a lot of oil. But if you are a normal economy with a lot of different people and a lot of different resources, the U.S. is kicking your butt and taking names too. The question then, is why? What is really driving this? Like everything in life, it is multi-factorial, and there is no one answer, but an important and often-overlooked answer is private ordering; the ability of people to do exchanges with each other on terms which they elect. Professor Sung is absolutely correct—you learn a lot in your first year contracts class in law school that is actually pretty important.

How do property rights help private ordering? Why is private ordering important? We are not just talking about the stuff you drive to work or come home to.

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14. Central Intelligence Agency, The World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html> (last visited Oct. 20, 2008) (listing, based on 2007 estimates, Qatar as having the highest GDP per capita with \$87,600 per person; the U.S. ranked tenth out of 229 countries with \$45,800 per person.); see also Editorial, *EU's Growth Gap*, INVESTOR'S BUS. DAILY, Feb. 22, 2005, at A18 (describing how the U.S. has yet to be outdone economically by the European Union). But see David R. Francis, *America the Richest – Depending on How You Count*, CHRISTIAN SCI. MONITOR, July 1, 2004, at 17 (noting that although the U.S. has a higher GDP than some countries, many flaws are inherent in comparing GDPs as proxies for general well-being and approximate living standards).

We are really not focused on property rights or tangible assets; we are focusing on property rights and intangible assets: contracts, the contractual relationships you have with others, capital (money) and intellectual property. When we say “property,” what we are really talking about is what law students and lawyers would call “property in contract”—property-based, less regulatory-based.<sup>15</sup> This is not about making the rich richer, this is about making everybody richer, about lifting people up and helping the economy overall.<sup>16</sup>

If you look at the U.S. financial system again, it is decimating everyone and doing really well. Again, there are places like Hong Kong that are a little further over because, like Qatar, Hong Kong is a small place with a big financial system. But if you are a big country with a diverse group of people, the U.S. is “winning” and again private ordering is a big part of that story.

Let us start with an example everybody can relate to before we get into intellectual property. Looking at banking: you are not going to deposit your money with a bank unless you think you can get it back. The bank is not going to loan you money unless they think they can get it back. Shareholders are not going to invest in the bank unless they think the insiders are not going to expropriate the investment they make in the bank. And the bank is not going to want to set up its bank in your banking system unless the regulations for that banking system are predict-

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15. Contracts can be considered a form of intangible property because they confer to the party rights similar to those granted with property. Blake Rohrbacher, Note, *More Equal than Others: Defending Property-Contract Parity in Bankruptcy*, 114 YALE L.J. 1099, 1105–06 (2005). These “property in contract” rights can include the “right to bring an action to recover a debt, money, or thing.” *Id.* at 1105. Several courts have recognized the concept behind “property in contract.” See, e.g., *In re Chateaugay Corp.*, 116 B.R. 887 (Bankr. S.D.N.Y. 1990) (“Contractual rights are intangible property . . . .”); *Gregory v. Colvin*, 363 S.W.2d 539, 540 (Ark. 1963) (“The right to sue for damages is property.”); *Yuba River Power Co. v. Nev. Irrigation Dist.*, 279 P. 128, 129 (Cal. 1929) (“The term property . . . is supposed to embrace those rights which lie in contract—those which are executor as well as those which are executed.”).

16. A long-lasting government depends on enforcement of contract and property rights. Christopher Clague et al., *Property and Contract Rights in Autocracies and Democracies*, 1 J. ECON. GROWTH 243, 270–71 (1996) (using empirical evidence to support the hypotheses that a long-lasting autocracy has an incentive to protect contract and property rights because they will increase the future income and tax collections of the country and that a long-lasting democracy has incentive to protect private property and contracting because these represent protections of individual freedoms that translate into free elections). Additionally, a healthy economy depends on the existence of markets that rely on third party enforcement of contracts and private property rights. Christopher Clague et al., *Contract-Intensive Money: Contract Enforcement, Property Rights, and Economic Performance*, 4 J. ECON. GROWTH 185, 185–87 (1999). Empirical data shows that governments that have strong enforcement of contract and property rights have higher levels “of capital accumulation, productivity, and per capita income” in the entire country. *Id.* at 198. In addition, enforcement of contracts and property rights can also help the poor. Stephen Knack, Security of Property and Contract Rights and “Pro-poor” Growth 2 (Feb. 4–5, 2003) (unpublished paper, available at <http://siteresources.worldbank.org/INTEMPowerment/Resources/486312-1095970750368/529763-1095970803335/knack.pdf>). Institutions that promote property and contract rights have an egalitarian effect that allows even poor individuals to invest in business. *Id.* “Fair and transparent procedures . . . promote the accumulation of physical and human capital, raising profits and wages” for everyone. *Id.* Countries that do not promote fair enforcement of contract and property rights lead to corrupt practices such as bribery payments that can hurt the poor. *Id.* at 3–4.



able. We solved this problem in the U.S. with the so-called *Winstar* cases,<sup>17</sup> but we see this problem all around the world—shifting banking regulatory regimes. Consider Mexico. In Mexico, there are almost no property rights in every one of those relationships, and what do you have? Only 18,000 home mortgages in 2005.<sup>18</sup> Santa Clara County, the area around Stanford University, has more mortgages than the entire country of Mexico.<sup>19</sup> Mexico is this big country and it has got 18,000 mortgages. So that means if you have got the kind of cash to go buy a house, you can buy a house. But if you are like most of us, and you do not want to pay cash for your house but you want to get a loan to finance your house, you are hosed. You cannot do it because you cannot get a commercial mortgage. Now that does not mean you cannot buy a home; there are people who buy homes in Mexico by borrowing money from family. So what if you are not from a rich family? Well, then you borrow money from people who will break your legs if you do not pay it back. But that is why there is such a small commercial mortgage market; because there are no property rights and the consequences of that is that it is hard for ordinary citizens to do something as simple as buying a house.

Think about intellectual property. Justice Robin Jacob,<sup>20</sup> who is really a wonderful speaker and thinker about IP issues, likes to talk about why we even have a patent system.<sup>21</sup> He begins by telling a story of Mark Twain's Connecticut Yankee,

17. In the wake of the savings and loan crisis of the 1980s, the Federal Savings and Loan Insurance Corporation (FSLIC), realizing that it did not have the funds to liquidate failing thrifts, set up regulations that incentivized healthy thrifts to take over ailing thrifts. See *United States v. Winstar Corp.*, 518 U.S. 839, 844–47 (1996). These incentives included allowing the healthy thrifts to use an “accounting treatment that would help the[m] . . . meet their reserve capital requirements imposed by federal regulations,” such as allowing the thrifts to count goodwill as an asset and to amortize the goodwill asset over long periods of time. *Id.* at 848–49, 851. When these measures did not fix the crisis and thrifts continued to fail, Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which did away with the FSLIC and many of the incentivizing regulations it had set up. *Id.* at 856–57. The healthy thrifts that had agreed to take over ailing thrifts under the previous regulations then sued the government for breach of contract. *Id.* at 858. The Court found that the government was not especially exempted from the contract merely because it was a sovereign power. *Id.* at 878, 884. Therefore, if the government wants to change regulations that affect prior dealings, it must do so knowing that it will be in breach of its formerly-made contracts and will still have to remedy those breaches. *Id.* at 878, 884–85.

18. *But see* CENTRO DE INVESTIGACION Y DOCUMENTACION DE LA CASA & SOCIEDAD HIPOTECARIA FEDERAL, CURRENT HOUSING SITUATION IN MEXICO 2005 at 21 (2005) (stating that in 2004 in Mexico, 531,241 mortgages were granted).

19. In 2004 in Santa Clara County, CA, approximately 47,000 homes were sold. City-Data.com, Santa Clara County, California, [http://www.city-data.com/county/Santa\\_Clara\\_County-CA.html](http://www.city-data.com/county/Santa_Clara_County-CA.html) (last visited Oct. 20, 2008). A total of 233,345 homes, or 80% of houses, have a mortgage in Santa Clara County. *Id.*

20. Sir Robert Raphael Hayim (Robin) Jacob is Lord Justice of Appeal for the High Court in the Chancery Division. Judiciary of England and Wales, List of the Senior Judiciary, [http://www.judiciary.gov.uk/keyfacts/list\\_judiciary/senior\\_judiciary\\_list.htm](http://www.judiciary.gov.uk/keyfacts/list_judiciary/senior_judiciary_list.htm) (last visited Oct. 20, 2008).

21. Robin Jacob, *One Size Fits All?*, in PERSPECTIVES ON PROPERTIES OF THE HUMAN GENOME PROJECT 449 (F. Scott Kieff ed., 2003). In his article, Lord Jacob contemplates whether Sir Boss of *Connecticut Yank* fame was correct in believing that patent laws were a step forward for every country. *Id.* Jacob points to several pitfalls of the current patent system. First, certain patents, such as those on genes, bar advancement because gene patents are impossible to design around and make some experimentation too expensive to pursue. *Id.* at 451. Second, the compulsory license system does not reduce the price of drugs, but instead rewards middle-

who goes to King Arthur's court and the very first thing he does is create a patent system so that his country can go forward. But Robin is also a bit of a provocateur and so he says, "Well, is IP really so good? Is calling IP intellectual really dressing it up? Or is this really just the law of private monopoly?" Those are good questions and those are fair questions. When we think about property rights and what intellectual property can do, we hear a lot about how they can increase innovation and invention. It is important to realize that patents do a lot more than just provide incentives for inventors to invent. Patents get inventions put to use. In order to get an invention put to use, you need to get a lot of folks to play nicely with each other—venture capitalists, manufacturers, marketers, inventors, and laborers. All of these people need to engage in a coordinated dance to get that invention put to use; property rights and patents help get that dance done. In that way, they bring new business models to the market and help new companies compete, and in that sense, they are anti-monopoly weapons. And let us remember, as an academic, I should tell you that all of my ideas are new and that you should cite me. However, it turns out that I did not figure any of this out; I got all of this from somebody else.

Giles,<sup>22</sup> who wrote about our patent system in the 1940s and who wrote our present patent system—the 1952 Act<sup>23</sup>—made very clear that he was not focusing on incentives to invent, he was focusing on commercialization—getting inventions put to use. Other leading jurists in the 1950s, early interpreters of the 1952 Act, wrote the same thing; people like Learned Hand and Jerome Frank, famous commercial law judges in New York.

How does this work? Think about a beacon. Turn out all of the lights in this room, give me a flashlight, and everyone knows exactly where I am. Not only that, everyone knows where everyone else who will be interested in that flashlight is. If you come to the beacon, you find the guy holding the beacon and all the other folks interested in doing deals with that person. Patents and property rights start conversations—they are about those contracts that Professor Sung was talking about; in order to have a contract, you have to start to talk—and patents get those conversations started. Though conversations are not really good in and of themselves, they are particularly good because they can help lead to deals getting done, to contracts getting struck—and property rights and patents are essential to getting deals done. The so-called liability treatment from basic property law highlights the difference between forcing entitlement with the right to exclude or liability treat-

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men. *Id.* at 452–53. Third, patents are awarded to inventions, like genetic probes, that did not take much time or research to create. *Id.* at 453. Fourth, the system for judging infringement is not reliable, especially in America where a jury must decide about highly technical issues. *Id.* at 455. Fifth, because patents are used world-wide, different countries use different standards to judge the same patent issues. *See id.* at 457.

22. Circuit Judge Giles S. Rich (deceased), U.S. Court of Appeals for the Federal Circuit, was one of the most influential judges in patent law, introducing the idea of “nonobviousness” and helping to write the 1952 Patent Act. Jon Thurber, Obituaries, *Judge Giles Rich*; *Patent Law Authority*, L.A. TIMES, June 14, 1999, at 22.

23. 1952 Patent Act, Pub. L. No. 82-593, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 1–376 (2000 & Supp. 2006)).

ment—enforcing entitlement with nothing more than the obligation to maybe pay some damages later if the court asks you to.<sup>24</sup>

The problem with liability rules is that they boil everything down to money, but it turns out that money is not everything. Deals hinge on a lot more than money. Consider the last IP contract you saw. If it were only about money, the contract would read “Contract to License X for Y Amount of Money”—period. But that is not how those documents read—those documents are thirty to forty pages long, single-spaced. That is not just because lawyers get paid by the hour. That is because good lawyers are transaction cost engineers who figure out ways to facilitate complex deals and those complex deals are about a lot of moving pieces. The problem with a mere damages award is that it does not do much for those other moving pieces and it does not do much for all of those other clauses in a contract. And so the problem with liability rules is that they frustrate private ordering and thus frustrate the ability to get productive coordination done.<sup>25</sup> On the side, they facili-

24. In a legal system, legal entitlements can be enforced using either property rules, liability rules, or inalienability rules. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1089 (1972). Property rules protect owners of entitlement by allowing a party who wishes to acquire the entitlement to enter into a voluntary transaction with the current owner. *Id.* at 1092. The entitlement must be purchased before it is transferred, and the owner of the entitlement has a right to exclude others from using the entitlement. *Id.* Liability rules allow the original owner of the entitlement to demand a fee from a party that takes the entitlement after the entitlement has already been taken. *Id.* The owner can sue, if need be, to enforce his entitlement rights, but the owner does not have a right to exclude others from using the entitlement. *Id.* Inalienability rules apply when the entitlement is not permitted to be transferred between a willing buyer and a willing seller, such as when the government forbids the sale of an item between willing but incompetent parties. *Id.* at 1092–93. Most entitlements are protected by either property rules or liability rules. Daphna Lewinsohn-Zamir, *The Choice Between Property Rules and Liability Rules Revisited: Critical Observations from Behavioral Studies*, 80 TEX. L. REV. 219, 219 n.2 (2001). When applying liability rules, an objective body, such as a court, will determine the true value of the entitlement and decide what is due to the owner. Calabresi & Melamed, *supra*, at 1092. The owner cannot ask for more than the objective body determines is the proper value, even if the owner would have demanded more before the party took the entitlement. *Id.*

25. Under the “standard liability model,” developed through the work of Guido Calabresi, John Prather Brown, and others, a rational actor presumably will take the appropriate degree of care after taking into account all the costs that his activity will impose on himself and on others. David D. Haddock et al., *An Ordinary Economic Rationale for Extraordinary Legal Sanctions*, 78 CAL. L. REV. 1, 8 (1990). The model promotes efficiency when a remedy compensates a plaintiff for the exact cost of injury suffered from another’s action(s). *Id.* Similarly, however, undercompensation leads to underdeterrence and overcompensation leads to overdeterrence. *Id.*

For example, a typical strict liability award in an eminent domain taking would be for ordinary damages, that is, compensatory damages that make the injured party “whole” again. *Id.* at 15 & n.41. Liability rules would allow an actor, D, to take from another, P, for the payment of ordinary compensation to P. *Id.* The parties have little incentive to negotiate and as a result, the parties are not able to share gains from an elected exchange, or private ordering. *Id.* at 16. While D is inclined to exercise the power of eminent domain, P is less likely to invest scarce resources in tradable assets, like real estate improvements. *Id.* Thus, in the standard liability model, ordinary or compensatory damages fail to adequately encourage negotiation. *Id.* at 19.

Furthermore, consider those who may seek to avoid licensing deals on the ground of irrational holdup. See *infra* note 27 and accompanying text. Enforcement of liability rules would effectively allow them to obtain use through court-ordered terms. F. Scott Kieff, *Coordination, Property, and Intellectual Property: An Unconventional Approach to Anticompetitive Effects and Downstream Access*, 56 EMORY L.J. 327, 384 (2006) [hereinafter

tate *bad* coordination—the ability for large, established players to coordinate with each other in ways in which they use cartel-like behavior to keep out competitors.<sup>26</sup>

The popular view of IP is that property rights and patents are just killing us: they are hold-ups, hold-outs.<sup>27</sup> There are all these buzzwords out there and the fear is

Kieff, *An Unconventional Approach*]. “A legal test that rewards a failure to cooperate would lead to a decrease, rather than an increase in cooperation.” *Id.*

26. Generally, patent enforcement with the strong right to exclude can help facilitate constructive coordination among those who seek to commercialize inventions and technologies. F. Scott Kieff, *A Keirestu Approach to Patents*, INTELL. ASSET MGMT., Feb.–Mar. 2007, at 51, 52 [hereinafter Kieff, *Keirestu*]. The right to exclude brings together a collection of complementary users and provides incentives for these individuals to strike deals with each other. *Id.* Liability enforcement through ordinary damages, hence weak patent enforcement, would nullify this effect. *Id.*

There is also bad coordination. F. Scott Kieff, *On Coordinating Transactions in Intellectual Property: A Response to Smith’s Delineating Entitlements in Information*, 117 YALE L.J. 101, 104 (Pocket Part 2007), available at <http://yalelawjournal.org/2007/10/10/kieff.html> [hereinafter Kieff, *On Coordinating Transactions*]. The liability rules model over weak patents gives a wide berth to large companies to engage each other and keep out smaller competitors. *Id.* Under this system, the established players have the resources to engage in numerous “patent skirmishes,” which can allow them to coordinate while circumventing trust and antitrust obstacles. *Id.* The result can resemble cartel-like behavior and collusion. *Id.* For example, companies can communicate with each other through these skirmishes in a forthright manner through signaling. *Id.* “Where an opponent spends resources to fight, and yields to save resources, [the opponent] can say more than a direct conversation about what territory is most coveted.” *Id.* Through litigation, parties would also share detailed information. *Id.* Depending on strategies that take certain territories while yielding others in a series of court skirmishes, players can share information outside the protective eye of antitrust review. *Id.*

Consider the corporate patent pool, where a conglomerate of large companies draws a collection of patents. Peter N. Detkin, *Leveling the Patent Playing Field*, 6 J. MARSHALL REV. INTELL. PROP. L. 636, 641 (2007). One example of this is with a technology standard like DVDs. Not only can members of this pool cross-license each other’s patents, but they can also shut out smaller competitors and turn market dynamics in their favor. *Id.*

27. Generally, a hold-up problem arises out of a relationship-specific investment, where the transaction between the parties cannot move forward due to efforts by one party to re-contract, usually for more resources. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 64 (2007). In a hold-up situation, the disadvantaged party has already invested in a collaboration and to redeploy outside of the collaboration would be costly. *Id.* at 35 & n.11. In the context of patents, a patent holder may threaten a downstream producer whose product incorporates the holder’s patent with an injunction. Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1992 (2007). Assume the producer has already invested in the design, manufacture, market, and sale of the product. Consequently, if granted, the injunction would force the producer to pull its product from the market. *Id.* at 1992–93. Thus, the threat of injunction places the patent holder in a position to negotiate royalties, to which the producer would have to participate or face the uncertainties of litigation. *Id.* at 1993, 1995–96.

A hold-out situation arises when two parties to a negotiation have not yet reached an agreement. Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CAL. L. REV. 1293, 1298 & n.9 (1996). One party, the hold-out, refuses to agree to the bargain for strategic reasons, perhaps to extract an exorbitant or high fee. *Id.* Consider the application to technical standards. Firms may join together to form a standard-setting organization for the purpose of implementing a heavily patented protocol. Douglas Gary Lichtman, *Patent Holdouts and the Standard-Setting Process 1*, available at <http://ssrn.com/abstract=902646>. Assume that the standard achieves widespread acceptance. If a patent holder left out of this collective reveals a patent after the fact, his negotiating position may allow him to demand a royalty and sizeable payment derived therefrom. *Id.*

Another example can be seen with DNA-on-a-chip technology incorporating micro-arrays of DNA. F. Scott Kieff & Troy A. Paredes, *Engineering a Deal: Toward a Private Ordering Solution to the Anticommons Problem*, 48 B.C. L. REV. 111, 112 (2007). A chip that contains thousands or tens of thousands of individual

that the government is going to shut down and the economy is going to collapse. Remember when the Research in Motion company went around to all the VIP's and gave everybody these BlackBerry devices; you were really sexy if you had a BlackBerry. Then there was this fear of suffering if your BlackBerry were to shut down.<sup>28</sup> And if you have heard the popular press on this, they were pretty serious. Our entire way of life is at stake if you read the newspapers. Cats and dogs were going to live together; mayhem was going to ensue if BlackBerry got an injunction.<sup>29</sup>

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pieces of DNA can involve numerous patents and many different patent holders. *Id.* To enter a business based on this technology, a business owner would be required to identify, find, and transact with a staggering number of patent owners. *Id.* Any one of these IP owners could hold out and jeopardize the operation. *Id.* at 112–13.

28. On April 17, 2007, Research in Motion (“RIM”), the Canadian company behind the popular BlackBerry mobile device, experienced a technical outage that affected some five million BlackBerry users in the United States. Brad Stone et al., *Bereft of BlackBerrys, the Untethered Make Do*, N.Y. TIMES, Apr. 19, 2007, at C1. Affected users were cut off from their wireless email for ten hours. *Id.* The ordeal revealed just how dependant customers had become on these “electronic lifelines.” *Id.* Several people experienced waves of emotions, including anxiety at the thought of remaining disconnected. *Id.* According to the New York Times, “many people thought they were suffering alone.” *Id.* Even White House officials complained that the outage affected their morning routines. *Id.*

The mass blackout of wireless email access to BlackBerrys, or “CrackBerrys” as they are known to users, forced customers to reevaluate their own dependence and overreliance on the mobile devices. *Bless the Black-out*, N.Y. TIMES, Apr. 21, 2007, at A14. The New York Times noted that BlackBerry messages have an addictive quality that has been well-documented. *Id.* One user stated that it was easier to quit smoking than to quit BlackBerry dependence. *Id.* Another apparently experienced “phantom vibrations” when he did not have his BlackBerry with him. *Id.*

29. Generally, under 35 U.S.C. § 271(a), any unauthorized manufacture, use, sale, or offer to sell any patented invention during the term of the patent constitutes a violation, or infringement, of that patent. 35 U.S.C. § 271(a) (2000). Section 283 of the Code further provides that “[t]he several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” *Id.* § 283. One such injunction is the permanent injunction, which, as in the case of RIM’s BlackBerry crisis, would have compelled the company to discontinue the production, use, sale, and offers to sell its device and service, so long as such conduct would infringe on the patents-at-issue. Final Order, *NTP, Inc. v. Research In Motion, Ltd.*, No. 3:01CV767, 2003 WL 23325540, at \*1–2 (E.D. Va. Aug. 5, 2003). Courts will apply a four-factor test in deciding whether a permanent injunction would serve as an appropriate remedy. See *eBay Inc. v. MercExchange L.L.C.*, 547 U.S. 388, 391 (2006) (establishing that the requesting party must show: “(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”). For additional information on the case, *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), see *infra* note 35.

The uncertainty of whether a federal judge would issue an injunction against RIM left millions of BlackBerry users in nervous anticipation of the ruling. Mark Heinzl, *Crunch Time Approaches for the BlackBerry Crowd—An Injunction in Patent Dispute Could Stop Service for U.S. Users, but Other Scenarios are Possible*, WALL. ST. J., Mar. 3, 2006, at B1. The potential shut down of RIM’s wireless email service would have put tremendous pressure on BlackBerry customers. The impact on large corporations with thousands of BlackBerry users would have been “a nightmare.” Ian Austen, *BlackBerry Service to Continue*, N.Y. TIMES, Mar. 4, 2006, at C1.

The basic intuition of the problem with liability enforcement rules is that they make transactions too forced and too frequent.<sup>30</sup> But how can a guy who likes private ordering transactions say that he is worried about too many transactions? The answer is that, like everything in life, you can have both too few and too many. It must be the case that there are some deals that should not get done and you have to recognize that liability treatment—the objective measure of damages—says, “We are going to make this deal happen.”<sup>31</sup> It is also recognized that the main argument for doing that is because of so-called irrational behavior. Courts should intervene when property owners are acting irrationally. But we are all smart folk and if we know that irrationality is the argument we are going to face in court, it is going to be like the Three Stooges the next time we see each other. I am going to poke your eye, step on your toes, and get you so pissed off that you will be irrational when we go to court. Then I can say to the judge, “Look, my trading partner is acting irrationally, could you please just set a license for this case, it is only in these irrational behavior cases where we ask you to do this Your Honor, I am a calm rational guy; it is just my counterpart in this deal, he is irrational, could you step in?” Right. That just provides incentives for me to act irrationally or for me to make you act irrationally.<sup>32</sup> We also have to recognize that while there is a hold-up problem,<sup>33</sup> there is

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30. Because liability rules only require that a potential infringer pay an objectively-determined “damages,” which may be likened to user or usage fees, anyone willing to pay these fees may exercise the property right. Calabresi & Melamed, *supra* note 24, at 1092; *see also* Tim Wu, *Tolerated Use*, 31 COLUM. J.L. & ARTS 617, 623 (2008) (noting that trespassers pay a fee under a liability regime). Typically, liability rules are justified under circumstances where transaction costs are too high for effective bargaining between the parties. *Id.* at 624. Proponents also argue that liability rules may offer an advantage in thin markets, where an inadequate number of transactions is unlikely to produce effective bargaining. *Id.* In this scheme of weak patents, i.e. the lack of strong patent enforcement such as injunctions, patentees are left to face “a thicket of infringers.” Kieff, *Keirestu*, *supra* note 26, at 52. Moreover, some argue that notwithstanding nonconsensual taking, liability rules may encourage trade between parties. Ian Ayres & Eric Talley, *Solomonic Bargaining: Dividing a Legal Entitlement to Facilitate Coasean Trade*, 104 YALE L.J. 1027, 1038 (1995). Indeed, if the court-determined award is too high, the potential infringer may approach the patentee to make a deal. Kieff, *On Coordinating Transactions*, *supra* note 26, at 103.

31. Under the Calabresi-Melamed framework, liability treatment creates an *ex post* compensation scheme. Calabresi & Melamed, *supra* note 24, at 1092. As long as the potential infringer pays objectively determined value for the entitlement, the entitlement transfers. *Id.* Thus, determining whether the taker may use the entitlement does not depend on negotiating an agreement with the right holder. Merges, *supra* note 27, at 1302. This “take now, pay later” structure closely resembles contracting with a presumed breach, where the offender pays “court-determined damages after the fact.” *Id.*

32. Ordinarily, property right mechanisms appropriately balance the social benefits of technology commercialization against the social costs of essentially granting a monopoly to the patent holder. Julie S. Turner, *The Nonmanufacturing Patent Owner: Toward a Theory of Efficient Infringement*, 86 CAL. L. REV. 179, 196 (1998). Yet, irrational behavior, such as using a patent solely as a barrier to entry, can deprive society of the benefits of this technology. *Id.* In the case of irrational nonmanufacturing patent owners, i.e. those who have no intention of commercializing the technology, the application of liability rules can lead to a form of efficient infringement. *Id.* at 182 & n.12, 196. By way of paying ordinary damages to the patentee, the infringer would be permitted to take and presumably confer a benefit to society. *See id.* at 196.

33. *See* U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, *supra* note 27, at 35 & n.11 (providing a general explanation of a hold-up situation).

also a hold-in problem,<sup>34</sup> which is trying to maintain the constructive attention of your counter-party. They will stay in the conversation, pricing the cost of litigation, but they are not going to stay in pricing the potential value of the deal. Everybody likes to make fun of the Research in Motion litigation<sup>35</sup>—settled for \$600 million—but everyone forgets that the early stage negotiations in that case were for four, five, or six million dollars. So it is hard to listen to someone complain about 100X when they were offered 1X. It is also worth remembering that the market estimate in that case was for one billion dollars, almost 200X. And it is also worth remembering that Research in Motion had set aside a cash reserve to settle the case of \$1.8 billion, 300X. So \$600 million sounds like a lot: it is 100 times what they were offered initially, and one third as much as they had set aside, so it sounds like a lot. The other problem in liability treatment is that it removes the options of the patent team to say this could have worked but it is not so I would like to do an exclusive with Lawrence Sung, but I would not like to do an exclusive with you.<sup>36</sup>

Liability treatment gives everybody who wants the technology a free pass—a free option. They may ultimately pay when they execute the price but the option is free.<sup>37</sup> This is particularly bad for small firms because big firms have a much better

34. In this example, the “hold-in problem” relates to the inability of one party to retain the collaboration of the counter-party. Unlike property rules, where the value of the entitlement is determined by the parties, liability rules leave this determination to the courts or some other entity apart from the parties themselves. Calabresi & Melamed, *supra* note 24, at 1092. As previously noted, “[a] legal test that rewards a failure to cooperate would lead to a decrease, rather than an increase in cooperation.” Kieff, *An Unconventional Approach*, *supra* note 25, at 384. Such an enforcement of liability rules would give one party less incentive to engage the other in bargaining or negotiations over the right. *See id.*

35. NTP, Inc. v. Research In Motion, Ltd., 418 F.3d 1282 (Fed. Cir. 2005). In this patent infringement case, NTP held five of the patents-in-suit relating to a technology system that allows mobile users to send and receive email via a wireless network. *Id.* at 1287, 1288–89. In 2001, NTP filed a lawsuit against RIM. *Id.* at 1289–90. The U.S. District Court for the Eastern District of Virginia granted partial summary judgment on two claims and submitted the rest to trial. *Id.* at 1291. At trial, the jury found “direct, induced, and contributory infringement,” and that RIM’s infringement was willful. *Id.* The district court subsequently entered judgment for NTP, awarding damages in the amount of approximately \$53 million, and ordered a permanent injunction against RIM, barring “further manufacture, use, importation, and/or sale of all accused BlackBerry systems, software, and handhelds.” *Id.* at 1292. Notably, however, the district court stayed the injunction pending judgment of the U.S. Court of Appeals for the Federal Circuit. *Id.*

On appeal, the Federal Circuit affirmed the district court’s judgment in part, reversed in part, vacated in part, and remanded the case back to the lower court for further proceedings. *Id.* at 1326. The Federal Circuit affirmed the finding of infringement on those claims relating to the system and apparatus, but the Court reversed the judgment of infringement with respect to method claims. *Id.* at 1325. Notably, the Federal Circuit vacated the order for permanent injunction. *Id.* at 1326. In March 2006, NTP and RIM settled for \$612 million. *See* Greg Hitt, *Industries Brace for Tough Battle over Patent Law—Drug Makers Oppose Overhaul Plan Backed by Tech, Finance Firms*, WALL ST. J., June 6, 2007, at A1; *see also* Austen, *supra* note 29.

36. Unlike property rules that leave valuation to the parties and enforcement to the state, liability rules protect entitlements through an objective valuation of the right. Calabresi & Melamed, *supra* note 24, at 1092. Whereas property rules permit the seller to walk away if an agreement cannot be reached, liability treatment effectively transfers entitlement to anyone willing to pay the objective determination of value. *Id.* Consequently, the parties are unable to enter into exclusive contractual arrangements for a patent because the patent cannot be enforced, and the “bargain effect falls apart.” Kieff, *Keirestu*, *supra* note 26, at 52.

37. In contract law, options are normally well-defined and specific property rights that parties consciously bargain over in advance. Carol M. Rose, *The Shadow of The Cathedral*, 106 YALE L.J. 2175, 2181–82 (1997).

time pulling in their counter-parties for a deal. This is because they have way more money to threaten litigation and they have much more leverage with their reputational effects, relationship with other players, and bargaining power. The new contract enforcement rules are making this even worse.<sup>38</sup> Let us see how this all plays out by looking at some enforcement rules. In the *eBay* case,<sup>39</sup> at least one way to read the result is that you do not get injunctions anymore unless you are a big player. In the *Toyota* case,<sup>40</sup> the Federal Circuit drops a footnote and says that even though there is infringement and there will not be an injunction, this will not be a compulsory license.<sup>41</sup> And we all know what happens when someone tells us what

Essentially, one party “pays” for the right to exercise the option at some point in the future. *See id.* Liability rules, however, do not consider the intentionality of the parties to the entitlement transaction. *See id.* at 2181. In other words, under the Calabresi-Melamed framework, liability rules apply to the accident model, where one or more parties do not think about the taking in advance. *Id.* Consider the example of a polluting factory situated next to a single residence. *Id.* at 2177–79. Liability treatment gives the factory the free option to pollute. The factory may pollute so long as it continues to pay damages. *Id.* at 2178–79. Similarly, the resident’s property right is subject to an option. *Id.* at 2179.

38. There are several examples of recent federal court decisions that appear to significantly alter rules of contract enforcement. For example, in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), the U.S. Supreme Court adopted a more stringent test for granting permanent injunctions than had been adopted by the lower courts. *See id.* at 394. Instead of requiring that a party demonstrate exceptional circumstances to bar injunction, the *eBay* Court held that courts must apply traditional principles of equity. *Id.*

The Federal Circuit reinforced this traditional standard for permanent injunctions in *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 2430 (2008). Despite a finding of infringement, the Federal Circuit upheld the denial of a permanent injunction against Toyota, a large automobile manufacturing and sales corporation. *See id.* at 1314–15.

Additionally, the Federal Circuit recently overruled a long-standing standard for awarding enhanced damages in cases of willful infringement. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (applying an objective recklessness standard in assessing enhanced damages), *cert. denied*, 128 S. Ct. 1445 (2008).

Finally, in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), the Supreme Court granted standing to a nonrepudiating patent licensee for declaratory judgment, whereas federal courts had previously applied the reasonable-apprehension-of-suit test in evaluation of standing in such cases. *Id.* at 122, 137. Scholars anticipate that this decision will change patent law with regard to licensing activities. Paul J. LaVanway, Jr., Note, *Patent Licensing and Discretion: Reevaluating the Discretionary Prong of Declaratory Judgment After MedImmune*, 92 MINN. L. REV. 1966, 1978, 1984, 1997–98 (noting that by lowering the standards for seeking declaratory judgment, this Supreme Court “decision will undoubtedly change licensing behavior”).

39. In *eBay*, MercExchange, holder of a business “patent for an electronic market designed to facilitate the sale of goods between private individuals . . . [through] a central authority [designed] to promote trust among participants,” sought to license this patent to eBay, a popular Internet auction site, and its subsidiary, Half.com. *eBay*, 547 U.S. at 390. The parties did not reach an agreement. *Id.* MercExchange then sued eBay for patent infringement in federal court. *Id.* Although the trial jury returned a verdict in favor of MercExchange, the U.S. District Court for the Eastern District of Virginia denied the plaintiff’s motion for permanent injunctive relief. *Id.* at 390–91. The Federal Circuit reversed the district court’s decision, holding that as a general rule, “courts will issue permanent injunctions against patent infringement absent exceptional circumstances.” *Id.* at 391. The Supreme Court granted certiorari to consider the appropriateness of the general rule. *Id.* A unanimous Court held that district courts not only retain equitable discretion in deciding whether to grant or deny injunctive relief in patent disputes, but also must exercise their discretion consistently with traditional principles of equity. The Court vacated the Federal Circuit’s judgment and remanded the case. *Id.* at 394.

40. 504 F.3d 1293; *see also* Lawrence M. Sung, *In the Wake of Reinvigorated U.S. Supreme Court Activity in Patent Appeals*, 4 J. Bus. & TECH. L. 97, 104 (2009) (discussing the court’s reasoning and holding in *Toyota*).

41. With regard to intellectual property rights (IPRs), the compulsory license represents a solution of sorts to obstacles or entanglements that hinder progress of certain transactions. Merges, *supra* note 27, at 1295. Imagine a transaction involving numerous IPRs which would require equally numerous contracts with multi-



we are seeing is not what is going on. That is just a Jedi mind trick. Toyota got a license and bought the license so that license was compulsory. Enhanced damages after *Seagate*?<sup>42</sup> Well, the *Seagate* case says where there is no duty of care,<sup>43</sup> there is no need to get the opinion of counsel.<sup>44</sup> Now the Federal Circuit seems to suggest that the only way you can get treble damages is by getting an injunction. But wait a minute, see step #1 before step #2. If you are not going to get permanent injunctions then why are you going to get temporary injunctions, so, hold on, you are not going to get either injunctions or enhanced damages. There is a *Merck* decision

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ple, independent right holders. A compulsory license, usually arising under a statutory mandate, would require that the rights be licensed to those willing to pay a pre-set price. *Id.* In this sense, compulsory licenses are a statutorily mandated contracting system. *Id.* at 1298.

Compulsory licenses require that right holders “transfer certain rights to certain classes of licensees.” Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 COLUM. L. REV. 2655, 2668 (1994). Where transaction costs are high and intractable, proponents of compulsory licenses reason that these devices are needed to promote certain types of exchanges. *Id.* at 2661. In the absence of statutorily mandated transactions, these exchanges would not occur. *Id.* at 2661–62. Compulsory licenses are more frequently seen in copyright law. *Id.* at 2668.

While compulsory licenses come with the price of depriving a patent owner of his right to exclude, some say that “[p]atent compulsory licenses provide a means for addressing the effects of property holdups without entirely eliminating the right.” Robert Bird & Daniel R. Cahoy, *The Impact of Compulsory Licensing on Foreign Direct Investment: A Collective Bargaining Approach*, 45 AM. BUS. L.J. 283, 284, 290 (2008).

42. 497 F.3d 1360. In *Seagate*, Convolve, Inc. and the Massachusetts Institute of Technology brought a lawsuit in federal court against *Seagate* for an alleged willful patent infringement. *Id.* at 1366. Before the lawsuit, *Seagate* obtained three written opinions concerning Convolve’s patents from counsel Gerald Sekimura. *Id.* Relying on these opinions, *Seagate* disclosed Sekimura’s work product and made him available for deposition. *Id.* Convolve subsequently moved to compel discovery of materials from *Seagate*’s other counsel, including communications and work product. *Id.* The district court held that *Seagate* had waived its attorney-client privilege concerning the subject matter of Sekimura’s opinions and ordered production of any requested documents. *Id.* at 1366–67. *Seagate* then sought relief from the U.S. Court of Appeals for the Federal Circuit. *Id.* at 1367.

The Federal Circuit ultimately granted *Seagate*’s petition. *Id.* at 1376. In so doing, the court overruled a longstanding standard for evaluating willful infringement and applied the new standard of “objective recklessness” for the application for enhanced damages. *Id.* at 1371. Since patent infringement is a strict liability offense, courts will award enhanced damages in the absence of a governing statute only upon a showing of willful infringement. *Id.* at 1368. The Federal Circuit also clarified the scope of waiver of the attorney-client privilege and held that when counsel is charged with willful infringement, asserting an advice-of-counsel defense and disclosing opinions of opinion counsel does not constitute a waiver of one’s attorney-client privilege for communications with trial counsel. *Id.* at 1374. Furthermore, the Court concluded that, in general, reliance on opinion counsel’s work product does not constitute a waiver of work product immunity with respect to counsel. *Id.* at 1376.

43. Prior to *Seagate*, courts applied a longstanding standard for evaluating whether a party’s infringement was willful. *Id.* at 1368–69 (“Where . . . a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.”) (quoting *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389–90 (Fed. Cir. 1983), *overruled by Seagate*, 497 F.3d at 1371).

44. *Id.* at 1371 (holding that willful infringement for the purpose of exacting enhanced damages requires a showing of objective recklessness). The Federal Circuit likened the threshold of the *Underwater Devices* standard to negligence. *Id.* In adopting the more stringent “objective recklessness” test, the Federal Circuit abolished the duty of due care requirement and, therefore, the need to seek and obtain the opinion of counsel. *Id.*

from 2005.<sup>45</sup> If you read the opinion closely, it gives a very broad reading to the reasonably related language from § 271(e) of the Hatch-Waxman Act.<sup>46</sup> It basically

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45. Merck KGaA v. Integra Lifesciences I, Ltd., 545 U.S. 193 (2005). Respondent Integra Lifesciences owned several related patents for a tripeptide sequence (RGD peptide). In the course of testing its own cyclic RGD peptide, petitioner Merck recognized the compound's potential in treating angiogenesis-related diseases such as cancer, diabetic retinopathy, and rheumatoid arthritis. *Id.* at 197. Merck subsequently entered into a research arrangement with the Scripps Research Institute (Scripps), where Scripps agreed to test RGD peptides developed by Merck to identify potential drug candidates. *Id.* In November 1996, Merck formally initiated an effort to guide one of its compounds through the regulatory process. *Id.* at 199. The same year, Integra filed a lawsuit against the petitioners in the U.S. District Court for the Southern District of California, alleging that Merck had willfully infringed on its patents by supplying the RGD peptide and that Scripps used the peptide in angiogenesis-related experiments. *Id.* at 200. Merck responded that § 271(e)(1) of the Drug Price Competition and Patent Term Restoration Act of 1984 (Hatch-Waxman Act) offered safe harbor from infringement for its actions. *Id.* At trial, the jury directed a verdict for Integra and awarded damages of \$15 million. *Id.* at 201. The district court believed the evidence was insufficient to directly connect Scripps' experiments and FDA review as required for § 271(e)(1) exemption. *Id.*

On appeal, the Federal Circuit held that the safe harbor provision under § 271(e)(1) did not apply because the Scripps research did not constitute clinical testing, but only general biomedical research. *Id.* The Federal Circuit also ruled that Integra's patents covered Merck's cyclic RGD peptides. *Id.* at 202.

The Supreme Court granted certiorari and considered whether § 271(e)(1) exempted the use of patented inventions in pre-clinical research from infringement, where the research results were not included in a submission to the FDA. *Id.* at 195. A unanimous Court held that use of patented compounds fell within the safe harbor protection of § 271(e)(1), provided that there was a reasonable basis to believe that the compound tested could be the subject of a FDA submission and the experiments would produce the types of information relevant to an investigational new drug application or a new drug application. *Id.* at 207–08. The Court ruled that the safe harbor provisions of § 271(e) covered the use of patented drugs in activities “related to the development and submission of *any* information” under the Federal Food, Drug, and Cosmetic Act of 1938. *Id.* at 202. The statute also protects the use of patented compounds in preclinical research experiments, even when the results of those experiments are not submitted to the FDA. *Id.* at 207.

46. Pub. L. No. 98-417, 98 Stat. 1585 (codified as amended in scattered sections of 35 U.S.C.).

Section 271(e) of the Act states:

(1) It shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention (other than a new animal drug or veterinary biological product (as those terms are used in the Federal Food, Drug, and Cosmetic Act and the Act of March 4, 1913) which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques) solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.

(2) It shall be an act of infringement to submit— (A) an application under section 505(j) of the Federal Food, Drug, and Cosmetic Act or described in section 505(b)(2) of such Act for a drug claimed in a patent or the use of which is claimed in a patent, or (B) an application under section 512 of such Act or under the Act of March 4, 1913 (21 U.S.C. 151–158) for a drug or veterinary biological product which is not primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques and which is claimed in a patent or the use of which is claimed in a patent, if the purpose of such submission is to obtain approval under such Act to engage in the commercial manufacture, use, or sale of a drug or veterinary biological product claimed in a patent or the use of which is claimed in a patent before the expiration of such patent.

(3) In any action for patent infringement brought under this section, no injunctive or other relief may be granted which would prohibit the making, using, offering to sell, or selling within the United States or importing into the United States of a patented invention under paragraph (1).

(4) For an act of infringement described in paragraph (2)— (A) the court shall order the effective date of any approval of the drug or veterinary biological product involved in the infringement to be a date which is not earlier than the date of the expiration of the patent which has been infringed, (B)

says if anything you do could be related to any information that might generate government review, that activity is exempt from infringement. There is nothing anybody does in our society that does not meet this test, right? We live in a relatively regulated society, and there is an immense amount of uncertainty.<sup>47</sup>

One set of problems now is that a licensee can always re-negotiate and we are going to hear about this. Remember that in the *Lear* decision,<sup>48</sup> the Supreme Court

injunctive relief may be granted against an infringer to prevent the commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug or veterinary biological product, and (C) damages or other monetary relief may be awarded against an infringer only if there has been commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug or veterinary biological product.

The remedies prescribed by subparagraphs (A), (B), and (C) are the only remedies which may be granted by a court for an act of infringement described in paragraph (2), except that a court may award attorney fees under section 285.

(5) Where a person has filed an application described in paragraph (2) that includes a certification under subsection (b)(2)(A)(iv) or (j)(2)(A)(vii)(IV) of section 505 of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 355), and neither the owner of the patent that is the subject of the certification nor the holder of the approved application under subsection (b) of such section for the drug that is claimed by the patent or a use of which is claimed by the patent brought an action for infringement of such patent before the expiration of 45 days after the date on which the notice given under subsection (b)(3) or (j)(2)(B) of such section was received, the courts of the United States shall, to the extent consistent with the Constitution, have subject matter jurisdiction in any action brought by such person under section 2201 of title 28 for a declaratory judgment that such patent is invalid or not infringed.

35 U.S.C. § 271(e) (2000), amended by 35 U.S.C. § 271(e)(5) (Supp. V 2003).

47. There is criticism concerning the current patent system. L. Gordon Crovitz, *Information Age: Patent Gridlock Suppresses Innovation*, WALL ST. J., July 14, 2008, at A15. Uncertainty surrounding patent rights and poorly defined rights drive liability costs to usurp the cost-benefit balance for rights holders. *Id.* Moreover, new technologies will necessarily challenge the “traditional ways of protecting rights.” *Id.*

Despite regulation, “patent owners still face considerable uncertainty, given the well-known risks that unanticipated adverse effects or the emergency of superior alternatives will reduce demand for products.” James Love & Tim Hubbard, *The Big Idea: Prizes to Stimulate R&D for New Medicines*, 82 CHI.-KENT L. REV. 1519, 1537 n.36 (2007).

As companies turn their eyes outward and seek to expand their presence globally, a whole hoard of issues arises at the multinational level, further adding to the climate of uncertainty. See Robert Bejesky, *Investing in the Dragon: Managing the Patent Versus Trade Secret Protection Decision for the Multinational Corporation in China*, 11 TULSA J. COMP. & INT’L L. 437, 439 (2004) (noting that the level of intellectual property protection will vary among countries, given stages of economic development and divergent interests). Companies choosing to invest in emerging economies, for example, will assume more risk and volatility, which necessarily involve uncertainties. *Id.*

48. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). *Lear* hired Adkins, an engineer and inventor, to develop a gyroscope. *Id.* at 655. The parties agreed that any resulting inventions would become the property of Adkins, and Adkins would grant *Lear* a license to incorporate his ideas into *Lear*’s production process. *Id.* at 657. Shortly thereafter, Adkins developed a method for improving gyroscopes which *Lear* immediately incorporated in its production process. *Id.* Adkins sought a patent for his discoveries with the PTO, and entered into a licensing agreement with *Lear*. *Id.* The licensing agreement contained a clause allowing *Lear* to terminate the agreement if the PTO refused to issue a patent or if a patent was granted but subsequently held invalid. *Id.*

Although the PTO initially denied Adkins a patent for his discoveries, it granted Adkins a seventeen-year monopoly for his discoveries in 1960. *Id.* at 658. During this time, however, *Lear* became convinced that Adkins would never receive a patent, and in 1957, refused to pay royalties for the gyroscopes it produced at its plant in Michigan, and in 1959, refused to pay royalties for the gyroscopes it produced in California. *Id.* at 659.

allowed the patentee to challenge the patent under which he is licensed. Post-*Lear* cases make clear that a licensee has to breach the contract in order to bring that challenge. The *MedImmune* case<sup>49</sup> seems to allow the licensee to challenge the patent while simultaneously holding the patentee to the rest of the deal. Remember what contract law is all about—contracts are all about striking a deal. If one side of the deal can always get out, it is not worth much to the other side to be in the deal. One way renegotiation means no contract. There are a variety of proposals made to try to fix this result by contracting through other approaches.<sup>50</sup> It is not clear that any of these would be enforceable and it is not clear what the remedies would be for breach of any of these contract terms if they were enforceable. The most you would probably ever get is some money, and probably the reason you want to strike some of those more complex contract terms is because you want them enforced on their terms, and not just because you want money.

A whole host of changes may or may not come out of the *Quanta* decision.<sup>51</sup> The *Quanta* decision raises this legitimate tension between the freedom of contract and the freedom of restrictive chattels. The argument by the petitioner in this case re-

After a series of patent decisions in the California courts that were unsatisfactory to both parties, the parties ultimately appealed to the California Supreme Court. *Id.* The court rejected the appellate court's "conclusion that the 1955 license gave Lear the right to terminate its royalty obligations . . ." *Id.* Given that the "agreement was still in effect, . . . the doctrine of estoppel barred Lear from questioning the" patent's validity. *Id.* In addition, the court found that Lear utilized Adkins' discoveries in the gyroscopes it produced in its Michigan plant and reinstated the jury's \$888,000 verdict. *Id.*

The Supreme Court granted certiorari "to reconsider the validity of the [estoppel rule developed in *Automatic Radio Mfg. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950)] in . . . light of [the Court's] recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection." *Id.* at 656. The Court explained that the uncertainty associated with the estoppel doctrine is the result of "judicial efforts to accommodate" contract and federal patent law. *Id.* at 668. As a result, the Court expressly overruled *Hazeltine* with respect to its "estoppel" holding, on the grounds that the aims of federal law policies demanded licensees to have the "incentive to challenge the patentability of an investor's discovery." *Id.* at 670–71.

49. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007); see also Sung, *supra* note 40, at 109 (laying out the Supreme Court's review in *MedImmune*).

50. See LaVanway, *supra* note 38, at 1978–79 ("The *MedImmune* decision will undoubtedly change licensing behavior."). For example, patent infringers may try to avoid willful infringement damages and preserve the right to bring declaratory judgments by strategically accepting licenses. *Id.* at 1978. Furthermore, patent licensing may begin to incorporate risk premiums into the license which may increase licensing costs. *Id.* Potential infringers may become more likely to litigate. *Id.* Even more drastic behavior may result such as forgoing business opportunities entirely. *Id.* at 1979.

51. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008); see also Sung, *supra* note 40, at 120 (showing the factual background and Supreme Court's analysis in the *Quanta* case); Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, 7 J. MARSHALL REV. INTELL. PROP. L. 682, 694–98 (2008) (proposing that the *Quanta* decision will change the way patent holders write licensing agreements and impact the biotechnology industry); *Quanta Computer v. LG Electronics: The U.S. Supreme Court Breathes New Life Into the Patent Exhaustion Defense*, JONES DAY COMMENTARIES, June 2008, at 5, available at <http://www.jonesday.com/files/Publication/ec9c1c1f-8896-4221-b19a-53bb6cbb58e4/Presentation/PublicationAttachment/9103311a-7cd9-4d94-8bdf-13c499dc6cbf/Quanta%20Computer.pdf> (discussing how the *Quanta* decision may affect a patent owner's success from a litigation perspective).

lated to the so-called first sale rule.<sup>52</sup> If that rule is really a very strong, immutable rule, then we cannot contract around it; it is a rule which covers all transactions. But what that would do is give the licensee, the buyer in this case, a windfall. The licensees in these cases knew they were buying this for only a little bit and now they want to say they got fee simple.<sup>53</sup> This is going to frustrate a whole set of expectations for everyone who has settled cases and struck deals thinking that the law was the way it was. But even more important than all of these problems—the problem we cannot deal with on a foregoing basis—is this: if the *Quanta* case comes out with a strong first sale rule, then if you want to strike a deal with anyone in the industry, you have to realize that you are striking a deal with everybody in the industry, and that is going to mean that the price you pay will be very, very high. Therefore, deals become very expensive and the person who settles the case has a massive coordination problem, where he has to integrate and get everybody in the industry to contribute so they can finance the settlement. Thus, this strict interpretation of the rule makes settlements more expensive and harder to coordinate.

What is the takeaway here? Seemingly diverse areas of law—contracts, intellectual property, property rights, etc.—all share some very basic means. Economic success is about private ordering. Private ordering is about flexibility to strike the deals you want on the terms you want and a little bit of flexibility for the government. Not the kind of flexibility to allow the court to enforce only when it wants, but for the court to enforce deals that were struck. And not to give a firm mandate where the government says, “These are the terms of your contract and you must have these in them and you cannot contract around them.” The bottom line is that

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52. The first sale rule (also known as the patent exhaustion doctrine in the context of patent law) provides that the first unconditional sale of a patented item terminates all of the patent holder’s rights to that item. *Quanta*, 128 S. Ct. at 2115. The rule limits the monopoly power of the patent by prohibiting a patent holder “from obtaining double royalties” from future purchasers or users. See *Levenger Co. v. Feldman*, 516 F. Supp. 2d 1272, 1286 n.2 (S.D. Fla. 2007) (citing *Bloomer v. Millinger*, 68 U.S. 340, 350–51 (1863)). “The theory behind this rule is that in such a transaction, the [patent holder] has bargained for, and received, an amount equal to the full value of the goods [with the patent rights attached to them].” *B. Braun Med. Co. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (citing *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 663 (1895); *Adams v. Burke*, 84 U.S. 453, 456–57 (1873)). Courts, however, have held that the first sale rule “does not apply to an expressly conditional sale or license” of a patented item. *Id.* In such transactions, courts will infer that the parties have negotiated a price that only considers the value of the use rights of the patented item. *Id.*

53. See J. Dianne Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power be Presumed when the Tying Product is Patented or Copyrighted?*, 48 LA. L. REV. 29, 61 (1987) (explaining that a patent holder possesses an exclusionary right to control the production and sale of his product, just as the fee simple owner controls the sale of real property). In property law, a fee simple absolute is an estate limited to a person that is unlimited as to duration, disposition, and descendibility. See BLACK’S LAW DICTIONARY 427 (6th ed. 1991). A license is “[a] personal privilege to do some particular act or series of acts on land without possessing any estate or interest therein, and is ordinarily revocable at the will of the licensor and is not assignable.” BLACK’S LAW DICTIONARY 634 (6th ed. 1991); see also U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 301 (8th ed. 2006) (“A patent license is, in effect, a contractual agreement that the patent owner will not sue the licensee for patent infringement if the licensee . . . fulfills its obligations and operates within the bounds delineated by the license agreement.”).

some of the recent cases that we will be talking about today frustrate the good coordination and facilitate the bad coordination.

ANDREW BECKERMAN-RODAU: Welcome. Thanks for the opportunity to speak, and I appreciate being invited to speak. I agree with a lot of what was just stated. And I guess there are a couple of basic takeaways from that that I would like to focus on. I tend to like to focus on basics, especially in my classes when I teach.

One of the most basic concepts in the previous presentation was this: how are we going to view patents? If we are going to view patents and intellectual property as property, then there are certain consequences of that, mostly good. If we are going to view them as other than property, then there are other consequences that are perhaps more problematic.

In our capitalist economic system, private property is a critical component. But, most of us take that for granted. My property students look at me and say, "So yeah, what is so innovative about that?" Well, in much of the world, that is not true. Years ago, when I lectured to a group of judges in Kiev, they thought this concept of private property was off the wall. They thought I was making it up. Someone even asked me at one point, "If you sue the government because they violate your property rights, does the government have to pay you?" I said, "Yes, there is even a special court you can go to, the Court of Claims," and they said, "Yeah, sure."

There is some connection between the economy of a country like that and the fact that it does not have strong private property rights. The lack of private property rights is a strong contributor to the state of their economy.

The *Quanta* case, which the Supreme Court has not heard yet, is going to be a very important decision. Whether or not the Court chooses to view patents as property will dictate the result in the case. The Court's view of patents is a significant and fundamental concept, but it has not been addressed frequently in recent decisions.

With that said, I want to focus more specifically on the *eBay* case, which is the focus of this panel. There is a tremendous amount of rhetoric about the patent law system in general, and a lot of it driven by the media, who in turn receive a lot of their editorials and advertisements from the various large enterprises that are looking out for their own interests, rather than what is best for the patent system.

It is also important to put everything in context. Historically, the Supreme Court has chosen not to hear patent cases and has not really looked at too many until

recently. The famous nonobvious<sup>54</sup> cases, *John Deere*,<sup>55</sup> back in 1966, and then the *Sakraida*<sup>56</sup> case in 1976, both ended up more or less ignored by the lower courts.<sup>57</sup>

54. Even if an invention is new, it must also be sufficiently inventive—a qualitative standard—to be patentable. This standard, called the nonobviousness test, evaluates the invention against the knowledge of a person having ordinary skill in the relevant technical art at the time of invention. An invention is nonobvious if it would not have been discovered by a person possessing ordinary skill in the relevant art at the time it was invented. 35 U.S.C. § 103(a) (2000). *See, e.g.*, *United States v. Adams*, 383 U.S. 39, 51 (1966) (holding that an invention that used familiar elements but worked in an unexpected manner was not obvious); *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 155 (1950) (Douglas, J., concurring) (explaining that obvious inventions are not patentable because they are not “of such quality and distinction that masters of the scientific field in which it falls will recognize it as an advance”). *But see* *Anderson’s-Black Rock, Inc. v. Pavement Salvage Co.*, 396 U.S. 57, 62–63 (1969) (concluding that combining “old elements [so that they] perform[] a useful function, [but] add[] nothing to the nature and quality of the [invention] already patented” is obvious).

55. *Graham v. John Deere Co.*, 383 U.S. 1 (1966). In *Graham*, the Court had to determine, among other things, the validity of a patent on an improved plow that prevented damage to the plow by combining old mechanical elements in a new way which improved the ability of the plow to absorb the shock of plowing through rocky soil. *Id.* at 4. The Fifth Circuit had held that a combination that produced an “old result in a cheaper and otherwise more advantageous way” was patentable. *Id.* In contrast, the Eighth Circuit held that the patent was invalid because the old elements did not produce a new result. *Id.* The Supreme Court granted certiorari to settle which test to apply to determine the validity of a patent under § 103. *Id.*

The Court pointed to its holding in *Hotchkiss v. Greenwood*, 52 U.S. 248 (1850), where it said that “a patentable invention must evidence more ingenuity and skill than that possessed by an ordinary mechanic acquainted with the business . . .” *Id.* at 11. The Court concluded that § 103 of the 1952 Patent Act embodied the test laid out in *Hotchkiss*. *Id.* at 17. As such, the Court held that resolving the question of patentability requires factual “inquiries into the obviousness of the subject matter sought to be patented . . .” *Id.* The Court then presented the now famous *Graham* Factors: “the scope and content of the prior art . . . ; differences between the prior art and the claims at issue . . . ; and the level of ordinary skill in the pertinent art . . .” *Id.* Furthermore, the Court established that various secondary considerations are relevant, including “commercial success, long felt but unsolved needs, [and] failure of others.” *Id.* Under this test, the Court agreed with the Eighth Circuit that the prior relevant art revealed that the patent at issue was invalid for obviousness. *Id.* at 24–26.

56. *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273 (1976). *Ag Pro* filed an action against *Sakraida* for patent infringement after *Ag Pro* created a water flush system that washed animal waste from the floor of a dairy barn. *Id.* at 273–74. The U.S. District Court for the Western District of Texas granted *Sakraida* summary judgment because *Ag Pro*’s invention failed to meet the test of nonobviousness since it combined old elements without any evidence of a new discovery. *Id.* at 274.

On appeal, the Federal Circuit reversed and held the patent valid. *Id.* The Federal Circuit disagreed with the district court’s findings because “the facts presented at trial clearly do not support [a] finding of obviousness under the three-pronged *Graham* test . . .” *Id.* at 280. Although the Federal Circuit recognized that the patent combined old elements, it concluded that the patent was valid because the prior art did not indicate an arrangement to create an abrupt release of a flow of water to wash animal waste from the floor of a dairy barn. *Id.* at 281.

Subsequently, the Supreme Court granted certiorari and held that the Federal Circuit erred in holding the patent valid. *Id.* at 274. The Court agreed that even though *Ag Pro*’s invention “may be relevant to commercial success” it was not patentable because “the combination ‘was reasonably obvious to one with ordinary skill in the art.’” *Id.* at 278. The Court also reiterated that the correct test to determine the validity of a patent involved several basic *Graham* factual inquiries. *Id.* at 280. Under this standard, the Court held that *Ag Pro*’s patent was invalid for obviousness and reversed the decision of the Federal Circuit. *Id.* at 282.

57. In the U.S. District Court for the Eastern District of Virginia, *eBay* argued that *MercExchange*’s patents were invalid for obviousness, and that *MercExchange* “misled the jury to believe that (1) the nature of the problem to be solved could not provide the motivation to modify, and (2) the prior art inventor must himself recognize the motive to modify.” *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 702–03 (E.D. Va. 2003). The district court disagreed and relied primarily on *SIBIA Neurosciences, Inc. v. CADUS Pharm. Corp.*,

The Court did not talk about obviousness again until thirty-one years later in the *KSR* case,<sup>58</sup> which is kind of a fascinating case because *KSR* goes back and says, “All of those prior Supreme Court cases that you have been ignoring lower courts, we think they are good law,” and they listed them all and discussed them. There is no indication that this trend, the Supreme Court hearing patent cases, is going to end. Some of that may be due to the fact that patents and intellectual property are a more important part of the assets that businesses have today than they were perhaps twenty, thirty, or forty years ago. That trend is going to continue, not only in the area we are addressing today, but in another important property related area. The Supreme Court is likely going to hear a case shortly that will consider the statutory subject matter—what is patentable and what is not patentable—under Section 101 of the patent law, which has been a controversial area and an area the Supreme Court has never addressed. But this area continues to see lots of problems which will continue to bring up the question of whether patents are or are not property.

Let me focus particularly on the *eBay* case, going from the more general to the more specific. I wrote a couple of articles on *eBay*<sup>59</sup> because I find the case problematic, and one of them has in the title “Judicial Activism,”<sup>60</sup> which suggests to you my view of the case. I think it is highly problematic. I do not think, like most people, that it is the end of the patent system, the end of our economy, or the end of the world, although many patent attorneys take that approach. But I think that it is problematic.

The first concern about the case is that the opinion is only about three pages long. That includes a majority opinion and two concurring opinions that reverse almost 150 years of rock-solid precedent.<sup>61</sup> Justice Thomas’s majority is breathtak-

225 F.3d 1349, 1358 (Fed. Cir. 2000), to refuse eBay’s motion for judgment as a matter of law or a new trial. *MercExchange*, 275 F. Supp. 2d at 703. On appeal, the Federal Circuit “agree[d] with the district court that there was substantial evidence to support the jury’s finding of nonobviousness” and relied primarily on the testimony of an expert witness. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1331 (Fed. Cir. 2005).

58. *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007); see also Ashley Houston, Note, *KSR International Co. v. Teleflex Inc.: The Supreme Court Declines the Opportunity to Finally Set the Record Straight and to Articulate One Clear Standard for Determining Obviousness in Patent Cases*, 4 J. BUS. & TECH. L. 219, 227–29 (2009) (discussing in depth the *KSR* decision).

59. See, e.g., Andrew Beckerman-Rodau, *The Supreme Court Engages in Judicial Activism in Interpreting the Patent Law in eBay, Inc. v. MercExchange, L.L.C.*, 10 TUL. J. TECH. & INTELL. PROP. 165 (2007) [hereinafter Beckerman-Rodau, *Judicial Activism*] (discussing the history of the *eBay* case and criticizing the Court’s departure from patent law precedent); Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): *A Review of Subsequent Judicial Decisions*, 89 J. PAT. & TRADEMARK OFF. SOC’Y 631 (2007) [hereinafter Beckerman-Rodau, *The Aftermath*] (discussing federal district court patent infringement cases after the *eBay* decision).

60. Referring to the Court’s decision to depart from precedent “in favor of deferring to the discretion of the trial court to decide whether a compulsory license or a permanent injunction is the appropriate remedy for infringement.” Beckerman-Rodau, *Judicial Activism*, *supra* note 59, at 207–08.

61. Before *eBay*, the Supreme Court consistently held that a patent owner has exclusive property rights and “is entitled to permanent injunctive relief once a patent is adjudicated to be both valid and infringed.” *Id.* at 188–89. See, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 130 (1969) (explaining that



ing in its lack of analysis. It is basically, “This used to be the rule; it is not the rule anymore.” He does not tell us why. When you look at the two concurring opinions, they both seem to recognize precedent is important, and should not simply be ignored. Chief Justice Roberts, though, does not explain why we should ignore the precedent. So then we are left with Justice Kennedy’s concurring opinion, and he again says, “Precedent is important, we should follow precedent.” But then he suggests, almost in passing, “Well, there are three reasons why, in this case, we are going to alter the precedent.”<sup>62</sup> And I think they are somewhat dubious.

He talks about non-practicing entities, which is the neutral term for patent trolls<sup>63</sup>—patent trolls being the derogatory term. He talks about the suspect validity of business method patents. We will get to that in a second, but that is a strange argument. He then talks about what I like to call the complex invention problem—somebody owns a patent on one little component of a larger invention, and hence has too much economic leverage. In most areas of business, you are considered smart if you have economic leverage.<sup>64</sup> But, somehow you are a bad person in the patent area.

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injunctive relief is available after determining that a patent is valid and “upon the demonstration of [a] ‘threatened injury’ [to the patent holder]”); *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 430 (1908) (“Anything but prevention takes away the privilege which the law confers upon the patentee.”); *Barnard v. Gibson*, 48 U.S. (1 How.) 650, 656–58 (1849) (recognizing that defendants can be perpetually enjoined from producing machines that infringe on the plaintiff’s patent rights).

62. Justice Kennedy explained that damages alone rather than permanent injunctive relief is a sufficient remedy in patent infringement cases because of: (1) the proliferation of business method patents; (2) firms that use patents not as a basis for producing and selling goods but, instead, primarily for obtaining license fees; and (3) situations where the patent covers only a small component of a larger product or device. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (Kennedy, J., concurring); see also Beckerman-Rodau, *Judicial Activism*, *supra* note 59, at 177–78.

63. “[P]atent trolls are individuals or corporations that hoard patents for the sole purpose of collecting licensing fees and damage awards from patent infringement suits . . . .” Robin M. Davis, Note, *Failed Attempts to Dwarf the Patent Trolls: Permanent Injunctions in Patent Infringement Cases Under the Proposed Patent Reform Act of 2005 and eBay v. MercExchange*, 17 CORNELL J.L. & PUB. POL’Y 431, 431 (2008). Peter Detkin, a former assistant general counsel at Intel, first coined the term ‘patent troll’ to describe small firms that enforced patent rights without actually using the patent to create a product. Alan Murray, *War on ‘Patent Trolls’ May Be Wrong Battle*, WALL ST. J., March 22, 2006, at A2. Patent trolls terrorize large corporations by threatening to seek a permanent injunction of potentially profitable products that employ its patent-infringing technology. See John LaPlante, *The Case for Abandoning the Term ‘Patent Troll’*, ROBINS, KAPLAN, MILLER & CIRESI LLP, Winter 2006, available at [http://www.rkmc.com/The\\_Case\\_for\\_Abandoning\\_the\\_Term\\_Patent\\_Troll.htm](http://www.rkmc.com/The_Case_for_Abandoning_the_Term_Patent_Troll.htm). But see James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 190 (2006) (arguing that patent trolls “act as a market intermediary in the patent market . . . and provide” several benefits to society); Miranda Jones, *Permanent Injunction, A Remedy By Any Other Name is Patently Not the Same: How Ebay v. MercExchange Affects the Patent Right of Non-Practicing Entities*, 14 GEO. MASON L. REV. 1035, 1043 (2007) (arguing that a patent troll: “(1) deters free riders; (2) enforces valid patents; (3) provides a market in which inventors may profit; (4) establishes the market value of patents; and (5) encourages competition and innovation”).

64. During negotiations, companies with strong economic leverage can command prices and pressure suppliers into cutting their costs. See Thomas A. Piraino, Jr., *A Proposed Antitrust Approach to Buyers’ Competitive Conduct*, 56 HASTINGS L.J. 1121, 1122–23 (2005) (discussing Wal-Mart’s ability to pressure suppliers for lower prices).

Let us consider Justice Kennedy's concurring opinion because, largely, it is becoming the only important part of the opinion since he actually provides some analysis to which lower courts are typically citing, and let us ignore the majority because there is no explanation or analysis to support the Court's change in position.

Let us talk about business method patents first, which Justice Kennedy finds to be inherently problematic. This is a strange argument because, while Kennedy talks about suspect validity, the *eBay* case had already been tried on the merits, had been appealed, and the court had found the patent to be valid. Whether you agree with that or not, the justice system found the patent to be valid. So, it is uncertain exactly what Kennedy is referring to. Perhaps he is referring to the fact that business method patents should not be statutory subject matter. Well, that is an interesting argument, but it seems to be a legislative, not a judicial, matter. The Federal Circuit in the *State Street* case did find business methods patents allowable,<sup>65</sup> but Congress more or less accepted that by amending the patent law.<sup>66</sup> So, it does not

65. *State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368 (Fed. Cir. 1998). In *State Street*, Signature appealed from a decision in the U.S. District Court for the District of Massachusetts granting summary judgment in favor of State Street claiming that patent 5,193,056 (patent '056) was invalid. *Id.* at 1370.

On appeal, the Federal Circuit reversed and remanded. *Id.* The court held that "State Street was not entitled to the grant of summary judgment of invalidity of the '056 patent under § 101 as a matter of law, because the patent claims are directed to statutory subject matter." *Id.* According to the facts, the patented invention allowed an administrator to monitor and record daily financial information and make all calculations necessary to manage an investment portfolio. *Id.* at 1371. The court explained that each of the patents related to the data processing software was a "machine" and § 101 states that either a "machine" or a "process" is a patentable subject matter. *Id.* at 1372.

The Federal Circuit explained that the district court incorrectly concluded that the '056 was invalid because Signature's data processing system fell within the "mathematical algorithm" exception. *Id.* at 1372-73. Under the mathematical algorithm exception, an invention is not patentable if it is merely an abstract idea that cannot be applied in a useful way. *Id.* at 1373. The Federal Circuit, however, found that Signature's data processing system was not an abstract idea. *Id.* As a result, the court held "that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces 'a useful, concrete and tangible result.'" *Id.*

66. But Congress did amend the patent law to more or less recognize business method patents by enacting a specific rule only applicable to business method patents. See 35 U.S.C. § 273 (2000). This section creates a special patent infringement defense just for "method patents." *Id.* And, subsection (a)(3) specifically defines "method" under § 273 only to mean "a method of doing or conducting business"—hence, this section of the patent law creates a special provision just for patented methods of doing business, which means Congress has recognized methods of doing business as patentable subject matter. In response to *State Street*, Congress proposed extensive changes to the handling of business method applications under the Business Methods Patent Improvement Act of 2000, but the Act failed to make it out of committee. H.R. 5364, 106th Cong. (2000). In doing so, Congress did not take the opportunity to limit the scope of patentable subject matter and amend 35 U.S.C. § 101 in any way. See Business Method Patent Improvement Act of 2001, H.R. 1332, 107th Cong. (2001); Patent Reform Act of 2005, H.R. 2795, 109th Cong. (2005) (neither of which were enacted into law). For further discussion of the pros and cons of new legislation to increase the requirements of patentability for business method patent applications, see Russell A. Korn, *Is Legislation the Answer? An Analysis of the Proposed Legislation for Business Method Patents*, 29 FLA. ST. U. L. REV 1367, 1379 (2002); Radhika Tandon, *Moving Forward: Patentability of Software and Business Method Patents*, 6 INTEL. PROP. L. BULL. 1, 3 (2001); John R. Allison & Emerson H. Tiller, *The Business Method Patent Myth*, 18 BERKELEY TECH. L.J. 987, 1021 (2003).

seem like Justice Kennedy’s place to tell the legislature, “Well, you do not have a right to grant patents on that,” because the Constitution grants the power to pass a patent law to Congress, not to the Court.

Non-practicing entities—that was alluded to in the prior discussion also. Non-practicing entities, or so-called patent trolls, are not necessarily a problem—they are just a new way to do business.<sup>67</sup> We do not restrict the ability of people to sever property rights and break them up in any other area of the economy, so why should it be any different in patent law?<sup>68</sup>

I run into this teaching in Boston, where I have a lot of students who come from MIT and other research institutions in Boston, many of whom are brilliant. They have no ability to do marketing, raise money, or in many cases have any people skills at all. Contrast that with a capitalist economy, like ours, that fosters specialization, which is why we have venture capitalists and marketing people. So, why should we penalize someone who gets a patent but is not able to market it or raise money, say, by calling him a patent troll—why is that such a bad thing? It is simply consistent with the economic system that we have in this country and it allows, more or less, a fair division of labor. It is hard to understand, exactly, why patent trolls are legitimately a problem, but it is easy to see why large companies do not like them.<sup>69</sup> Most of the negative rhetoric about patent trolls comes from companies like Intel and Microsoft, companies that can afford to pay the license fees, but

67. See Davis, *supra* note 63, at 431–32 (discussing how patent trolls do business).

Patent trolls typically purchase patents from defunct companies in bankruptcy proceedings or through venues that allow them to accumulate potentially valuable intellectual property without subjecting the patents to industry scrutiny and valuation processes. Generally, patent trolls do not intend to manufacture products based on their patents. Instead, trolls target other companies that use technology or patents in the same area as the troll’s patent. The trolls send letters to these companies, threatening to sue for infringement of their patent unless the other company pays a substantial licensing fee. Conveniently, the licensing fee is calculated to be less than the cost of a legal defense. Patent trolls gamble that those rare companies that refuse to pay licensing fees will lose against them in court, thereby granting patent trolls large damage awards when their patents are held both valid and infringed.

*Id.* (internal citations omitted).

68. The Court’s decision in *eBay Inc. v. MercExchange, L.L.C.* separated the right to exclude from the right to obtain a permanent injunction. 547 U.S. 388, 392–93 (2006); see also Shyamkrishna Balganesh, *Demystifying the Right to Exclude: Of Property, Inviolability, and Automatic Injunctions*, 31 HARV. J.L. & PUB. POL’Y 593, 598 (2008) (discussing the Supreme Court’s unlinking of the right to exclude and the remedy of permanent injunction in *eBay*).

69. Patent trolls have forced many large companies into paying exorbitant settlements. See Amol Sharma, *Tech Giants Join Together To Head Off Patent Suits*, WALL ST. J., June 30, 2008, at B1 (reporting that NTP Inc. forced RIM, the maker of BlackBerry, to pay a \$612 million settlement in 2006); Sara Silver et al., *NTP’s Visto Pact May Boost Case Against BlackBerry*, WALL ST. J., Dec. 15, 2005, at B6 (reporting that Microsoft paid more than \$1 billion in the past three years to settle patent infringement claims); *Patent Dispute Threatens Prepaid Wireless Service*, REUTERS NEWS, Oct. 18, 2005 (reporting that Boston Communications Group had to pay \$128 million in damages in a patent infringement claim). In addition, the rate of patent lawsuits is also rising faster than any other type of litigation. See Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. L. BULL. 1, 3 (2005); McDonough, *supra* note 63, at 191 (“Between 1970 and 2004, the annual number of patents issued by the PTO increased from 67,964 to 181,302.”); Jess Bravin, *Patent Holders’ Power Is Curtailed—High Court Rules Intent Of Original Law Exceeded; More Disputes May Arise*, WALL ST. J., May 1, 2007, at A3

would prefer not to.<sup>70</sup> If they only have to pay a compulsory license,<sup>71</sup> that is often a lot cheaper and it takes away the leverage from these smaller enterprises. However, in the long run, it is going to hurt larger enterprises, because for a lot of these smaller innovators,<sup>72</sup> less leverage leads to less incentive, which leads to less innovation for the large companies to license. Normally what has happened in the last ten or fifteen years is that large technology companies recognize that other people are able to invent something, and so they license stuff. But before that, there was a corporate mindset in large companies that anyone outside the company was an idiot, and those companies would never license from outsiders—what could they possibly know that was not already known? At the time, this was a fairly common and legitimate corporate culture.

Today, companies are finding this mentality to be false, especially in the pharmaceuticals industry. If non-practicing entities are eliminated, that may im-

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(reporting that “[p]atent cases accounted for one quarter of protected-property cases heard by district courts [in 2007]”).

70. Patent trolls often seek out companies and threaten to sue them unless they receive a licensing fee. See Jennifer Kahaulelio Gregory, *The Troll Next Door*, 6 J. MARSHALL REV. INTELL. PROP. L. 292, 293 (2007) (“Companies are compelled to pay the fees because injunctions can have extremely severe economic consequences and can significantly damage reputations.”). The suits are especially troubling to manufacturing companies and corporations that “deal with numerous infringement claims from many types of patent holders . . . .” *Id.* at 294. Corporations are particularly wary of certain patent trolls who have “no intention to manufacture a product or to innovate further with the invention” and only want to make money from companies through litigation. *Id.* at 293 (citing Bruce Berman, *Illegitimate Assertions?*, INTELL. ASSET MGMT., Oct.–Nov. 2004, at 22; FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 31 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>). Many large companies complain that patent trolls “are merely exploiting loopholes within the patent system for personal gain at the expense of the commerce system as a whole.” See Paul M. Mersino, *Patents, Trolls, and Personal Property: Will eBay Auction Away a Patent Holder’s Right to Exclude?*, 6 AVE MARIA L. REV. 307, 315 (2007).

71. “Compulsory licenses provide for the right to ‘use a copyrighted work if certain procedures are followed’ and a statutorily defined fee is paid.” See Jason S. Rooks, Note, *Constitutionality of Judicially Imposed Compulsory Licenses In Copyright Infringement Cases*, 3 J. INTELL. PROP. L. 255, 255 n.1 (1995) (quoting DONALD F. JOHNSTON, COPYRIGHT HANDBOOK 115 (1978)). Compulsory licenses thus require the holder of a copyright or patent to allow others to use that copyright or patent in exchange for a fee. *Id.* at 266. This is distinguished from a regular license where an individual or company would have to negotiate with the copyright owner for its use at an agreed upon fee. See, e.g., *Cablevision Sys. Dev. Co. v. Motion Picture Assoc. of Am., Inc.*, 836 F.2d 599, 602–03 (D.C. Cir. 1988) (discussing the use of compulsory licenses in cable broadcasting). In *Cablevision*, the court noted that “cable systems are required to pay a fee, to be distributed to the copyright owners [of a compulsory license] as surrogate for the royalties for which they might have negotiated under a pure market scheme” with a regular license. *Id.* at 603.

72. Innovation is encouraged by the constitution’s Patent and Copyright Clause. See Neeraj Arora, *Disabling Patentability for Skill-Based Inventions: Aligning Patent Law with Competition Policy*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1, 2 (2005). The free market and competition can incentivize not only large firms, but smaller companies and individuals to innovate. *Id.* at 12–13. As long as these companies and individuals “can appropriate enough gains from their innovation to offset their costs, they will innovate.” *Id.* at 13. Many commentators say that smaller innovators are vital to the general market and larger businesses because they create patent market efficiency through innovation and invention which they can then license to others. See Mersino, *supra* note 70, at 317–18. See generally Paul E. Schaafsma, *A Gathering Storm in the Financial Industry*, 9 STAN. J.L. BUS. & FIN. 176, 188 (2004) (describing Walker Digital, an Internet patent company that focuses its efforts on wide range of industries to license to larger companies).

prove the short-term balance sheet,<sup>73</sup> but in the long term, it may reduce the amount of innovation those entities have to market to larger companies.

Finally, let us consider the complex invention problem, an argument particularly put forward vehemently by the electronics industry. An inventor creates a product that may have hundreds or thousands of patents or intellectual property rights involved in it,<sup>74</sup> and the industry argues that it is very costly and expensive to have to pay all those rights. While that may be true, one could make the same argument about utility bills, “I should not have to pay the utility bill because it is too complicated and involved.” If you are using someone’s product because you need it, and the person selling it has market power, why should he not get what he demands? If the product is so unimportant, then maybe the company does not really need it. But usually, companies find they do need it, so the problem of “too much leverage” does not seem to make a lot of sense.<sup>75</sup> In addition, from an economic point of view, things are worth what the market will pay in our economic system. So, if the marketplace demands a lot of money for a small component of a complex invention, that is what it is worth.<sup>76</sup>

There is another, more basic, issue to consider. When talking about patent law, especially when deciding whether patents are property rights or not, it is important to start at the source. In this context, the “source” would be the U.S. Constitution, where there is a clear patent and copyright clause, put in by the founding fathers.<sup>77</sup> The clause clearly gives Congress the *right* to enact laws—they do not *have* to enact them—that give exclusive rights to inventions. For those who remember first year property, the term “exclusive rights” is just another way to describe, functionally, a property right.<sup>78</sup> So that is what the term is describing, that bundle of rights that

73. Large companies may argue that elimination of non-practicing entities will save them money. See generally Mersino, *supra* note 70, at 315–16 (stating that large companies allege non-practicing entities merely add extra costly fees, or a “hidden tax onto every sector of the economy”). However, others argue that these entities actually increase innovation because “they are still avenues by which innovation is compensated, and therefore fostered, not hindered.” *Id.* at 318.

74. See, e.g., Michael A. Van Lente, Note, *Building the New World of Nanotechnology*, 38 CASE W. RES. J. INT’L. L. 173, 189–90 (2006) (explaining the difficulty of obtaining a patent in the field of nanotechnology because of the various components of innovations). Specifically, someone new to the nanotechnology industry may have difficulty obtaining a patent because there are so many particular parts to an invention. *Id.* at 189.

75. Companies usually find they need to purchase the patents. See Gregory, *supra* note 70, at 293 (stating that companies often feel compelled to buy the patent because of the economic consequences of injunctions).

76. Market forces determine the price of licensing fees. See generally Gregory K. Leonard & Lauren J. Stiroh, *A Practical Guide to Damages*, PAT. LITIG. 2008, Sept.–Nov. 2008, at 453. Patents and their licensing fees are generally influenced by market considerations, especially for companies that are considering whether it is more profitable to license their patent or to use it exclusively. See Note, *Limiting the Anticompetitive Prerogative of Patent Owners: Predatory Standards in Patent Licensing*, 92 YALE L. J. 831, 857 (1983).

77. U.S. CONST. art. I, § 8, cl. 8 (“The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”).

78. An exclusive right describes the general right of property and ownership. See, e.g., Wash. Med. Ctr., Inc. v. United States, 545 F.2d 116, 125 (Ct. Cl. 1976) (defining property with the term “exclusive right,” as “[t]hat which belongs exclusively to one[;] . . . the unrestricted and exclusive right to a thing; the right to

belongs to a patent holder. So, it is up to Congress to decide what things are going to be patentable. They certainly can exclude certain subject matters, and they have—Section 101 does not cover everything.<sup>79</sup> But once those property rights are granted by Congress, the clear intent of the Constitution indicates that whatever is covered by the patent becomes a property right. Giving someone a compulsory license—the freedom to use someone else’s property, even if that person does not want it to be used, with a judicially determined amount of compensation—is very contrary to a property right. It would be like someone who decides, “I am going to live in your living room. I know you do not want me there, but I think it is a nice living room. I like the color of the carpet and your couch looks comfortable. And all right, if you do not like that, sue me, and the court will come up with a compulsory rental agreement.” I am stuck with you, whether I like it or not, because it is efficient.<sup>80</sup> It has assured you housing in the area, and that would be good for the economy. In a sense, that is exactly what we are talking about if people are going to have to license their technology whether they want to or not, and the court will end up determining how much the license is worth.

From a more general perspective, these notions end up altering the marketplace. It seems preferable to allow the marketplace to deal with so-called patent trolls and patent rights, rather than letting the government, through the court system, decide

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dispose of a thing in every legal way, to possess it, to use it, and to exclude every one else from interfering with it[;] [t]he exclusive right of possessing, enjoying, and disposing of a thing[;] . . . [t]he highest right a man can have to anything”) (quoting BLACK’S LAW DICTIONARY 1382 (4th ed. (Rev.) 1968)). The exclusive right of ownership is “an essential attribute of property in the Anglo-American legal system . . . .” Laurie Stearns, *Copy Wrong: Plagiarism, Process, Property, and the Law*, 80 CALIF. L. REV. 513, 536 (1992). Not all property is subject to exclusive use; for example, natural resources are an exception “to the general rule of exclusivity.” *Id.*

79. Section 101 of the Patent Act states: “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” 35 U.S.C. § 101 (2000). This statute, along with other patent statutes, was passed under Congress’s authority in the Constitution to regulate patents. See U.S. CONST. art. I, § 8, cl. 8; see also *Diamond v. Chakrabarty*, 447 U.S. 303, 307 (1980) (discussing Congress’s power under the constitution to pass patent laws in order to give “inventors exclusive rights for a limited period as an incentive for their inventiveness and research efforts”). Like many judicial decisions in patent law, the Court in *Diamond* had to determine whether the plaintiff’s invention fell within the meaning of § 101 and thus, was patentable. *Id.* at 307. Ultimately, the Court held that Chakrabarty’s specific genetically engineered bacterium, designed to break down crude oil, did fall within the meaning of “manufacture” under § 101. *Id.* at 305, 307, 309. The Court noted that while § 101 covers many areas, not all types of inventions and innovations will fall within its text. *Id.* at 309 (stating that § 101 does not cover “[t]he laws of nature, physical phenomena, and abstract ideas” such as Newton’s law of gravity).

80. Promoting market efficiency is often cited as a reason for compulsory licenses. See Rooks, *supra* note 71, at 269–70. Many commentators claim that the market would fail without statutorily required compulsory licenses because transaction fees are so costly and time consuming. *Id.* Specifically, they claim that these transaction costs would be too burdensome and costly for individual owners and copyright users to negotiate for each use. *Id.* at 270. Compulsory licenses are only required under the federal copyright statute in very limited circumstances, and compulsory licenses are not statutorily required under the patent law in any circumstances. *Id.*

how they should be dealt with. Generally, it does not work when the government decides how to regulate stuff.<sup>81</sup>

A couple of final points. At this point, some people would be tempted to say, “This guy is an academic, sitting in an Ivory Tower talking about things that do not really reflect real life.” Well, actually I am not; I am actually making the majority arguments in *Continental Paper Bag v. Eastern Paper Bag*,<sup>82</sup> from 1908, where the Supreme Court considered these issues and said, “A patent is property.” That case essentially involved a patent troll. It was a case where a company did not want its competitors to use the patent, so it refused to license it. At the same time, the company itself did not use it because it gave them a market advantage. The Supreme Court considered the issues and said, “Well, it is a property right. We do not get to evaluate how they are using it. They do not want to use it? Maybe that is bad, but it is their property.” In contrast, the Supreme Court in *eBay* more or less wiped out that case from 1908, did not explain why, and then moved to a compulsory licensing approach.

What are some of the real world consequences of *eBay*? One of the things about decisions like this is that people pontificate about what the effects are going to be. So last summer, I went back and I found and then read all the district court opinions post-*eBay*. I wanted to see, “Has the world come to an end? Are there any clear patterns from *eBay*?” And the answer is: there are some very clear patterns. Some are not surprising, while others are interesting. What became really clear was that if you are a patent owner and a direct marketplace competitor—you are actually us-

81. Some critics claim that requiring compulsory licenses overlooks the reality that owners and copyright users want to avoid high transaction costs and that technological advances such as computer databases could help make the process more efficient without statutorily mandated fees. *Id.* at 270. This has led some experts to complain that government intervention has prevented such market-based alternatives. See generally *id.* (quoting Paul Goldstein, *Preempted State Doctrines, Involuntary Transfers, and Compulsory Licenses: Testing the Limits of Copyright*, 24 UCLA L. REV. 1107, 1139 (1977) (“By reaching so quickly for the compulsory licensing solution, Congress effectively foreclosed experimentation with possibly more efficient private alternatives.”)).

82. 210 U.S. 405, 429–30 (1908) (affirming an injunction against the defendant, the court held that a patent holder of a “self-opening” paper bag machine did not have to use the patent for the patent to be effective). Plaintiff, the owner of a paper bag manufacturing patent, sued one of its competitors, who used its patent without an agreement. *Id.* at 406–07. The defendant claimed, among other things, that the plaintiff’s non-use of the patent prohibited the suit. *Id.* The court disagreed, stating that non-use “may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.” *Id.* at 429.

In contrast, the Court in *eBay Inc. v. MercExchange, L.L.C.*, held that an injunction would be allowed only after the court considered a four part test. 547 U.S. 388, 391 (2006); see also *supra*, note 29. The Court in *Continental* did not consider these factors when deciding to issue an injunction relying instead on the general property right to “use or not use it, without question of motive.” *Continental*, 210 U.S. at 429.

After *Continental* and prior to *eBay*, courts would generally grant an injunction for patent infringement, and the four-part rule applied in *eBay*, also known as “balancing the equities,” was used in other equity cases, but was not applied to patent disputes. See Rebecca A. Hand, Note, *eBay v. MercExchange: Looking at the Cause and Effect of a Shift in the Standard for Issuing Patent Injunctions*, 25 CARDOZO ARTS & ENT. L. J. 461, 462–63 (2007). The *eBay* decision was significant because the Court recognized “that the long-held presumption in favor of granting an injunction against a patent infringer was no longer valid” and instead, a court must apply the “balancing of the equities” test. *Id.* at 463.

ing the patent to make a product—then you are going to get a permanent injunction.<sup>83</sup> That is pretty clear—almost all the cases got that result.<sup>84</sup> But, if you are a non-practicing entity—a so-called patent troll—you are not going to get a permanent injunction. If you are in the marketplace making a product, but you are not a direct competitor—you are an indirect competitor—you are not going to get an injunction. That seemed to be the one thing that was clear from all the cases. What was interesting were the results when I looked at factors that seemed irrelevant. For example, you would think that willful infringement would be relevant, but it was found to be irrelevant.<sup>85</sup> That seems like a strange result. If someone willfully infringes your patent, why should we feel bad if they get a permanent injunction? But that did not seem to correlate in the decisions at all. The focus of the decisions seemed to be whether you are a direct marketplace competitor. This more or less means that if you do not practice your invention, for whatever reason—you cannot raise the money, you are not good at marketing, you do not want to practice it, or

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83. “The Patent Act allows the issuance of injunctive relief against a patent infringer.” See Sue Ann Mota, *eBay v. MercExchange: Traditional Four-Factor Test for Injunctive Relief Applies to Patent Cases, According to the Supreme Court*, 40 AKRON L. REV. 529, 529 (2007) (citing 35 U.S.C. § 283 (2000)). Generally, “[a]n injunction is ‘a court order commanding or preserving an action.’” *Jefferson County Comm’n v. ECO Pres. Servs.*, 788 So. 2d 121, 125 n.1 (Ala. 2000) (quoting BLACK’S LAW DICTIONARY 788 (7th ed. 1999)). In patent law, an injunction allows the patent holder to obtain a court order and prevent another from using their patented product. See generally Hand, *supra* note 82, at 462–63, 463 n.13. After *eBay*, the court has moved away from generally granting injunctions when patent is infringed, in favor of using an equity balancing test. See *id.* at 463.

84. See Benjamin Peterson, *Injunctive Relief in the Post-eBay World*, 23 BERKELEY TECH. L.J. 193, 194, 198, 203 (2008) (describing, in an analysis of post-*eBay* cases, a correlation between competition and getting an injunction as well as a correlation between non-use and a denial of an injunction); see also, Edward D. Manzo, *Injunctions in Patent Cases after eBay*, 7 J. MARSHALL REV. INTELL. PROP. L. 44, 53 (2007) (discussing the link between competition of the parties in a patent infringement case and the court’s issuance of an injunction).

Various district court cases have followed this trend. See, e.g., *Novozymes A/S v. Genencor Int’l, Inc.*, 474 F. Supp. 2d 592, 595, 613 (D. Del. 2007) (issuing an injunction against defendant, a direct competitor, who infringed upon plaintiff’s patent of enzymes for fuel ethanol); *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978, 981, 990 (W.D. Tenn. 2006) (granting an injunction against the defendant who infringed on its competitor’s patent on intramedullary nails used to repair bone fractures); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 438, 440 (E.D. Tex. 2006) (denying an injunction on behalf of the plaintiff, in part because plaintiff did not commercially sell its patented computer software and thus did not directly compete with the defendant).

However, some cases that initially granted injunctions after *eBay* have recently been reversed by the Federal Circuit. See, e.g., *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401, 405, 421 (N.D. Ohio 2007) (holding that defendant-competitor infringed plaintiff’s patents on labeling and relabeling reusable containers and issuing injunctive relief for plaintiff), *rev’d*, 258 F. App’x 318, 320 (Fed. Cir. 2007) (affirming all of the district court’s findings except the extent of the injunction and holding that the district court’s injunction was overly broad since it applied to use outside the United States and the plaintiff had previously admitted that international infringement was not an issue); *Muniauction, Inc v. Thomson Corp.*, 502 F. Supp. 2d 477, 482, 493 (W.D. Pa. 2007) (issuing an injunction against defendant, a direct competitor, who infringed the plaintiff’s patented Internet bond auction system), *rev’d*, 532 F.3d 1318, 1330 (Fed. Cir. 2008) (reversing injunction against use of plaintiff’s patents because some were obvious and some were not infringed).

85. After *eBay*, many commentators feared that even willful infringers would escape injunction and “lose the [court] battle but win the war.” Mersino, *supra* note 70, at 323. In practice, this has occurred in district courts which have disregarded a defendant’s willful infringement and awarded damages instead of an injunction. See, e.g., *z4 Techs.*, 434 F. Supp. 2d at 438, 441 (denying an injunction despite the fact that the defendant willfully infringed the plaintiff’s computer software patent).



maybe you are just good at innovating and you are going to license it—the courts are going to treat you differently than someone who goes into the marketplace and makes the patented invention. One of the problems here is that these kinds of decisions represent judicial activism at its worst. Congress has thought about whether there should be a so-called “working requirement” of your patent—which some countries have—over the centuries since patent law was passed in 1790—and they have routinely said no. The Supreme Court has now said that it is a two-tier system. If you work your patent and you go in the marketplace, and you are a business person, you get an enhanced economic value. If you just want to be an innovator, and you do not want to go into business, you get a reduced value. All you get is the right to a compulsory license, and nothing more.

Ultimately, this comes down, to a large extent, to whether courts are going to view patents as property. If courts view patents as property, then the innovators should be enabled and empowered to control how their intellectual property is used. If patents are not going to be property, then compulsory licenses make more sense.<sup>86</sup> But compulsory licensing radically undersells, or ignores, the concept of private property. And the *Quanta* case, which was referred to before, will ultimately turn on the court’s fundamental view of patents: whether or not patent rights are viewed as property will dictate the result.

THOMAS WOOLSTON: I was inspired by the two previous great speakers to do a presentation today. It is wonderful listening to Scott Kieff. In fact, some of his academic points are very accurate and inspiring. At first, courts were willing to provide companies with injunctions. Then there were merger discussions, and companies merged. Now the courts are not as willing to issue injunctions. If you cannot affect the marketplace, you do not have a property right, and therefore you are a troll. It has become definitional. Because of the rise of the Internet in our marketplace—beginning in 1998 or 1999—the Valley’s<sup>87</sup> model had categories,<sup>88</sup>

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86. If copyrights and patents are not viewed in terms of property, then arguments against compulsory licenses may have less merit. *Cf.*, Theresa M. Bevilacqua, Note, *Time to Say Good-Bye to Madonna’s American Pie: Why Mechanical Compulsory Licensing Should be Put to Rest*, 19 CARDOZO ARTS & ENT. L.J. 285, 294 (2001) (stating that many commentators criticize compulsory licenses because they violate property rights). Specifically, critics complain that compulsory licensing allows Congress to take private property owners’ exclusive rights for unfair and unreasoned prices. *Id.*

87. Silicon Valley is widely known as “the home of the internet businesses . . . .” *See* Stomp, Inc. v. NeatO, LLC, 61 F. Supp. 2d 1074, 1079 n.9 (C.D. Cal. 1999) (describing the influence of California on the Internet business). In the late 1990s, people flocked to the Valley in hopes that they would make money on the surge of the dot-com boom. *See generally* Alene Taber, Note, *Marketing High Tech Jobs the IPO Way*, 21 WHITTIER L. REV. 841, 841 (2000) (analyzing the attractiveness and legal implications of IPOs and start-up companies in Silicon Valley). Additionally, investors prayed they would become “Siliconillionaires,” or overnight millionaires, by investing in the right companies. *Id.* However, a few years later, “the high-tech bubble burst and many skilled professionals lost their jobs . . . .” Charles B. Craver, *The Labor Movement Needs a Twenty-First Century Committee for Industrial Organization*, 23 HOFSTRA LAB. & EMP. L.J. 69, 92 (2005).

88. The Internet and technology have allowed businesses to focus on specific areas of expertise to reach millions of users right in their own homes. *See, e.g.*, Christian N. Watson, Note, *The Growth of Internet-only Banks: Brick and Mortar Branches are Feeling the “Byte,”* 4 N.C. BANKING INST. 345, 345, 355 & n.84 (2000)

and many companies were going to be category killers.<sup>89</sup> You might remember that from the Internet days. For example, Google killed the category in search engines, Amazon was going to kill the category of books, but companies began to branch out, and eBay was going to kill the category of auctions. These companies really did kill categories and were sucking the oxygen out of the room, not just for us,<sup>90</sup> but for everybody. There was certainly a time in the case where we were tempted to wrap things up so that we could do something else. Originally, we were seeking IP rights for the company that is the dominant maker, but as the litigation progressed through the years, we realized that we and our company were not frozen in amber and that we could go out and get licenses. However, as we approached the licensees, they objected since we had killed the category. Licensees said, “If you can actually move markets, we will pay you rights. We will pay royalty rights and merge the companies, but you have got to enjoin us in the market place, since we have tried and failed.” For example, Yahoo spent hundreds of millions of dollars trying to get into the auction market and failed, despite a joint venture with Sotheby’s. Amazon was with Sotheby’s and spent \$680 million trying to break into the market and was unsuccessful.<sup>91</sup> Because of the lack of success, Amazon felt that if another company could actually show that it could get Amazon a wedge in that market, then the company had something enormously valuable. Thus, there was a dominant player who was using its money, muscle, and everything else at its disposal to make sure we stayed out of the market, so that they could continue to call us patent trolls. I

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(comparing the potential impact of online banking to category killers such as Amazon.com). For example, in the late 1990s and early 2000s, banks were attempting to monopolize the online banking industry, in the way that Amazon.com had dominated the online book industry. *Id.* at 355 & n.84.

89. See Brannon P. Denning & Rachel M. Lary, *Retail Store Size-Capping Ordinances and the Dormant Commerce Clause Doctrine*, 37 *URB. LAW.* 907, 907 & n.3 (2005) (defining a “category killer” as a store or company that dominates “one part of the retail market, such as building materials, garden plants, drugs, or books . . . [that] competes with smaller stores . . . and in retail jargon, cannibalizes them”) (quoting DOLORES HAYDEN, *A FIELD GUIDE TO SPRAWL* 30 (2004)). These companies are “virtually impossible to meet or beat on price” and completely destroy the competition in their market. See Dwight H. Merriam, *Breaking Big Boxes: Learning from the Horse Whisperers*, 6 *VT. J. ENVTL. L.* 7, 7, 10 (2005) (analyzing the effects of “big box” retail on the market). Critics complain that category killers harm smaller businesses by pushing them out of the market. *Id.* at 10.

90. Inventors and innovators can be injured by category killers. See Michael J. Madison, *The Idea of the Law Review: Scholarship, Prestige, and Open Access*, 10 *LEWIS & CLARK L. REV.* 901, 918 (2006) (discussing the “innovator’s dilemma,” or the concern that companies will not invest in innovation because they do not want to “invest in disruption” and will get put out of business by category killers).

91. In May 2007, Yahoo announced it was closing down its auction site. Barrie McKenna, *Yahoo Bows to eBay, Pulls Plug on Auction Site*, *THE GLOBE & MAIL*, May 10, 2007, at B3. Many commentators claimed that Yahoo failed because it was unable to compete against eBay, in part because it did not allow participants to monitor and communicate with each other regarding potential scams. Reid Goldsborough, *Once Industry Leader, Yahoo Now Struggling to Compete; Technology Today*, *COMMUNITY C. WK.*, Aug. 13, 2007, at 12(1).

In October 2000, Amazon shut down its joint venture auction site with Sotheby’s less than a year after it was launched. Troy Wolverton, *Amazon, Sotheby’s Closing Jointly Operated Auction Site*, *CNET NEWS*, Oct. 10, 2000, <http://news.cnet.com/2100-1017-246863.html>. Despite Sotheby’s experience in the field, there was “a significant culture clash” for traditional auction houses to adapt to the Internet auction process, which created customer service problems along the way. See Troy Wolverton, *Traditional Auction Houses Have Rough Transition Online*, *CNET NEWS*, May 30, 2000, <http://news.cnet.com/2100-1017-241163.html>.

never understood what a business methods patent was. The Supreme Court decreed that we were a business method patent and we fought the label. The patent at issue in the case was a specific technology, if you read the claims, so I never figured out what made something a business method patent. We handled the press by claiming that if a business method was a well known way of doing business off the Internet, then we are not a business method. That was not what the claims were about.

There was additional misinformation that ran through the case, including that we were never a company. We had a staff of forty contractors and staff. We had a warehouse in Old Town, we were building the products, we were down the street from Motley Fool, and we were going great guns. The window closed on us and everyone else once the category killer emerged. The thing that was most interesting to us was that we could never, even on a remand from the Supreme Court, get the court to read Kennedy's opinion. The court always wanted to read Kennedy's opinion, and in response we spent an enormous amount of effort getting the *Paper Bag* case affirmed.

Additionally, there were two questions verified,<sup>92</sup> not just one, and Seth Waxman, our counsel, fought the four factor test vociferously, which did not appear to come from case law. However, the majority opinion did instruct the courts to use traditional equity principles,<sup>93</sup> which were stated in cases from the 1800s. As a result of that decision, the Supreme Court was actually deciding cases rather than just announcing rules, and there were some pretty interesting cases. In fact, if you follow all of the cases through *Root v. Railway*,<sup>94</sup> cited in the *Paice v. Toyota* decision, it

92. In his concurring opinion, Justice Kennedy agreed with the majority's (1) application of the four factor test in deciding whether to grant injunctive relief in patent cases and (2) use of the historical practice of issuing injunctions as guidance in applying the four factor test. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395–96 (2006) (Kennedy, J., concurring).

93. While the principles of equity are incapable of precise definition, the principles specifically mandated by *eBay* outline the four factor equity balancing test: irreparable injury, inadequate remedies at law, balance of hardships favor the party seeking the injunction, and public interest is served by the injunction. *Id.* at 391 (majority opinion). However, the principles of equity generally “vary depending upon the social and religious context in which they are applied.” Gavin R. Skene, *Arranger Fees in Syndicated Loans—A Duty to Account to Participant Banks?*, 24 PENN. ST. INT'L L. REV. 59, 69 (2005). Conduct that is fair and just or balanced and proportionate may be said to be equitable while immoral or unethical conduct may be said to be inequitable. *Id.*

94. *Root v. Lake Shore & M.S. Ry.*, 105 U.S. 189 (1881). Thomas Sayles was the assignee of a letters-patent for an improvement in railroad car brakes. *Id.* at 189. After the patent expired, he filed suit against Lake Shore and Michigan Southern Railway, alleging a series of infringements that occurred during his assignment period and seeking an accounting of and payment of all profits derived from their alleged infringement of the patent. *Id.* at 189–90. The Circuit Court of the United States for the Northern District of Illinois dismissed his complaint and after Sayles' death, Charles Root, his executor, substituted in the Supreme Court as appellant. *Id.* at 190. Upon review, the Court rejected the appellant's contention that “the infringer of a patent-right is, by construction of law, a trustee of the profits derived from his wrong, for the patentee, and that [because] a court of equity . . . [has] jurisdiction over trusts and trustees,” he is entitled to equitable relief. *Id.* at 214. In affirming the district court's dismissal, the Court held that it would not sustain any suit in equity “where [a] plain, adequate, and complete remedy may be had at law . . .” *Id.* at 212. Furthermore, because the appellant did not present any circumstances that would render a remedy at law inadequate for the alleged wrongs, there was no ground for equitable relief. *Id.* at 216–17.

is clear that the Supreme Court is correct in that it is not a compulsory license, it is actually a theory of *ex-maleficio* constructive trust,<sup>95</sup> which is an unjust enrichment theory. The Supreme Court will deny injunction cases for practical, pragmatic, semi-tangible, and objective reasons. For example, if a company only has two years left on a patent, it cannot possibly get in the market and make the patent effective in the next two years, the Court will interrupt a trust *ex maleficio* which is 100% of the profits of the infringement. We could probably have bought 100% of downtown Norfolk with even a quarter of eBay because the infringement was so off the charts. Additionally, perhaps the courts overemphasized the power of injunctions. Are injunctions even enforceable? Are monetary fines imposed to get somebody to comply with an order? This issue was difficult to get everyone to cease and obey the order. That was certainly not what happened in our case since individuals were designing around the patent. Thus, to win this fight, we had to prove infringement again.

The judge in Norfolk hearing the case really felt that an injunction would result in the loss of one-third of the market cap in an afternoon when the parties will reach an economic accord and the case will resolve itself.<sup>96</sup> We felt that the shareholders were going to sit and we should not lose one-third of the company in an afternoon if we had an injunction. The judge would not enter a compulsory license or a constructive trust, and this issue was brought up to the U.S. Court of Appeals for the Third Circuit appeal of the case. There needs to be some way to end a case. All litigation must end at some point. If the judge does not issue an injunction or a compulsory license to end a case, was that similar to an anti-trust continuing conduct decree? What is that? Constant supervision? Are we going to have them in here every month? Because we will tell you how that is going to work. They are going to say, “we stopped, prove it if you can,” and so we were right back in to the reason injunctions were granted in the first place which is you did not need to bring a series of infringement suits to effect a remedy. Which if you go back to read Joseph Story,<sup>97</sup> that was one of the reasons why the court took jurisdiction in the first place in these legal cases.

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95. Commonly known as a constructive trust, an *ex maleficio* trust is a trust “imposed by law upon a wrong-doer in order to provide a remedy to the injured party.” *Hockenjos v. FDIC*, 199 A. 596, 597 (N.J. 1938). Because the creation of *ex maleficio* trusts are merely based on wrongful conduct, they are not sufficient to establish a fiduciary relationship under the meaning of § 523(a)(4) of the Bankruptcy Code. Pamela A. Belt, Note, *Bush v. Taylor: A New Exception to Discharge in Bankruptcy?*, 44 ARK. L. REV. 757, 766–67 (1991). Section 523(a)(4) of the Bankruptcy Code provides that an individual debtor, acting in a fiduciary capacity, is not discharged from any debt for fraud or defalcation. 11 U.S.C. § 523(a)(4) (2006).

96. See generally Yuki Noguchi, *Government Sides Against eBay in Patent Dispute*, WASH. POST, Mar. 11, 2006, at D01 (“The Office of the Solicitor General said . . . that eBay willfully infringed on patents held by . . . MercExchange LLC and should be enjoined from using its ‘Buy it Now’ feature, which allows users to buy goods at fixed prices . . . Goods sold using that system account for about a third of eBay’s business.”).

97. In *Taylor v. Carpenter*, 23 F. Cas. 742 (C.C.D. Mass. 1844), “Justice Joseph Story granted the first injunction based on trademark infringement . . .” Peter S. Menell, *Regulating “Spyware”: The Limitations of State “Laboratories” and the Case for Federal Preemption of State Unfair Competition Laws*, 20 BERKELEY TECH. L.J. 1363, 1381 & n.56 (2005). Justice Story believed that injunctions and even the threat of injunctions were

A very interesting point of law came up in the case. I have not practiced law very long, but we were thrown in the reexams<sup>98</sup> post-judgment, post-trial while the first appeal was pending. They actually filed the opening brief and then filed reexams to make sure we were in jurisdiction limbo. The PTO took jurisdiction and said this is a SNQ.<sup>99</sup> We objected to the PTO citing *Pearne*<sup>100</sup> and *Wichterle*,<sup>101</sup> which are good cases still on the books. The PTO responded by applying administrative estoppel<sup>102</sup> to not allow re-litigation of issues that have been fully litigated, while the case was in reexam. That is all old law, and so we can no longer stay reexam. However, we were not asking the court to stay the case, we were asking the court to dismiss it. The PTO wanted to take jurisdiction of these cases. The PTO has made it very clear that the door is open and they want to take jurisdiction. We warned the PTO that it is going to hear every patent case then, since a good defense attorney would not let the Office have jurisdiction without an objection. This will result in a dual appellate system, with one appeal going to the courts<sup>103</sup> and the PTO hearing the other

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beneficial to society because they move disputes out of the courts by motivating settlement. John M. Golden, "Patent Trolls" and Patent Remedies, 85 TEX. L. REV. 2111, 2140 (2007). He further reasoned that injunctions remove the need for courts to engage in "attempting to provide accurate assessments of patent-infringement damages," an undertaking for which he viewed the courts as "ill suited." *Id.*

98. Reexamination is a process in which a patent holder, a target of an infringement suit, or a third party can request to have a patent reexamined by the PTO. Jacob Birnbaum, *The Case for the U.S. Patent and Trademark Office's Adoption of an Open-Source "Bounty" System for Reviewing Business Method and Software Patents, in Light of the Patent Infringement Battles Featuring the U.S. Financial Exchanges that Have Been Waged in Recent Years*, 2006 UCLA J.L. & TECH. 1, 46–47. A third party may request reexamination to challenge the validity of a patent in defense against a claim of patent infringement while an inventor may file for reexamination to ensure the validity of his patent before suing someone for infringement. See, e.g., Matthew John Duane, *Lending a Hand: The Need for Public Participation in Patent Examination and Beyond*, 7 CHI.-KENT J. INTELL. PROP. 57, 64 (2008); William Barrow, Comment, *Creating a Viable Alternative: Reforming Patent Reexamination Procedure for the Small Business and Small Inventor*, 59 ADMIN. L. REV. 629, 635 (2007).

99. Subsequent to a request for reexamination, the Director of the PTO must determine whether there is a substantial new question of patentability (SNQ) before proceeding with the reexamination. Julia vom Wege Dovi, Comment, *Speaking Words of Wisdom: Let it be: The Reexamination of the Human Embryonic Stem Cell Patents*, 12 MARQ. INTELL. PROP. L. REV. 107, 111 (2008). The PTO will grant a request for reexamination if the examiner finds that the requestor has cited prior art raising a SNQ. *Id.* "Prior art raises a substantially new question of patentability if 'there is a substantial likelihood that a reasonable examiner would consider the prior art . . . important in deciding whether or not the claim is patentable.'" *Id.* (quoting U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2242 (8th ed. 2006)).

100. *In re Pearne*, 212 U.S.P.Q. (BNA) 466 (Comm'r Pat. & Trademarks 1981). *In re Pearne* is a case where a PTO examiner determined whether a SNQ existed "by comparing the prior art of record in the original patent application with the prior art cited in the request for reexamination." See Steven M. Auvil, Note, *Staying Patent Validity Litigation Pending Reexamination: When Should Courts Endeavor to Do So?*, 41 CLEV. ST. L. REV. 315, 323 & n.50 (1993).

101. *In re Wichterle*, 213 U.S.P.Q. (BNA) 868 (Comm'r Pat. & Trademarks 1982). In the case of *In re Wichterle*, the PTO held that it would not inquire about a SNQ if a federal court previously addressed the issue. *In re Swanson*, 540 F.3d 1368, 1378 (Fed. Cir. 2008).

102. Administrative estoppel prevents a federal court from re-litigating "an adjudicatory decision [already] reached by a state agency." *Stancil v. Moo & Oink*, No. 95-2342, 1996 WL 30801, at \*2 (7th Cir. Jan. 24, 1996).

103. A party dissatisfied with the outcome of an *ex parte* reexamination may appeal the decision of the PTO examiner to the Board of Patent Appeals and Interferences. Kenneth L. Cage & Lawrence T. Cullen, *An Overview of Inter Partes Reexamination Procedures*, 85 J. PAT. & TRADEMARK OFF. SOC'Y 931, 936 (2003). If a party is dissatisfied with the decision of the Board of Patent Appeals and Interferences, he has two alternatives for court

appeal. Moreover, since there is no page limit to an appeal, they are like monuments to vexation. We pleaded with the PTO again and it responded by claiming that a final judgment of a district court is not really a final decision of the judicial branch. However, this seems incorrect since the final decision from the judiciary prevents multiple litigations in multiple jurisdictions. We did not fight the PTO and instead went to the Supreme Court seeking a final decision. However, that decision was not final because there was a cert petition panel. We ultimately obtained the cert petition, which was the final decision of the judicial department, and we felt that validity was done. Although I did not understand what Kennedy was saying, it appeared that he said that the judiciary is incapable of adjudicating these cases because the case remains open after a final decision is made. We petitioned again to the PTO with the final word from the judicial department requesting that it dismiss the reexams. The PTO again refused. At this, I had WilmerHale<sup>104</sup> dig a little deeper. I did not want patent attorneys to do the research because patent attorneys get wrapped up in the intellectual aspect; they are like engineers in that they try to make things work. I believed we needed Supreme Court people that know constitutional law. It did not make sense that a political commissioner could issue a right to a person, a land grant, a patent grant or a spectrum right and then, following an election, a subsequent political commissioner could claim that the previous commissioner made a mistake, and thus revoke the right and reissue or reallocate rights according to his or her political choices. The PTO is supposedly quasi-political, but the fact is, it is in the direct chain of command of the President.<sup>105</sup> The PTO is as influenced by the President as the State Department or the CIA or anyone else. There is no independent commission sitting over the PTO. The commissioner can sit on the panels if he or she chooses. That is as political of a panelist as you are ever going to get. This struck us as an issue that really needs to be looked into, and I hopefully gave some law students here some food for thought and insight as to where to research this. We found some old, interesting mining cases that were all the same veins. Back in the old gold rush days, you could go and find an oil deposit and apply for a mineral patent and you would get a land grant. There are a lot of cool land grant cases in the Supreme Court in the 1800s where miners were fighting over very lucrative

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review. *Id.* at 936–37. He can either appeal to the U.S. Court of Appeals for the Federal Circuit or to the U.S. District Court for the District of Columbia. *Id.*

104. Counsel of record, Seth P. Waxman, is a partner at WilmerHale. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 389 (2006); WilmerHale, Biographies, [http://www.wilmerhale.com/seth\\_waxman/](http://www.wilmerhale.com/seth_waxman/) (last visited Oct. 31, 2008).

105. The PTO is one of the agencies under the executive branch of government by which “[t]he President, as the head of the executive branch, enforces the laws and policies enacted by Congress . . . .” Carol M. Nielson & Michael R. Samardzija, *Compulsory Patent Licensing: Is it a Viable Solution in the United States?*, 13 MICH. TELECOMM. & TECH. L. REV. 509, 520 (2007). The fact that “[t]he Director of the USPTO is appointed by the President with the advice and consent of the Senate” illustrates how the office is in the direct chain of command of the President. Amy L. Magas, *When Politics Interfere with Patent Reexamination*, 4 J. MARSHALL REV. INTELL. PROP. L. 160, 167 (2004).

mineral discoveries. That is a very good analogy. We found a case that stated that you cannot have a situation in which one commissioner issued grants and then a subsequent commissioner de-issued those grants. The only way to take away the grants is to have due process from the courts. The United States is permitted to challenge the grant as a defendant and have due process. I think that was probably the saving grace of the first time the reexam statutes went up on appeal—you had 35 U.S.C. § 145, which allows you to go to a district court to challenge a PTO decision, and the PTO would be in no better position than any other defendant to challenge a patent. There would be an opinion from the agency, but it would be subject to a full blown trial where there would be experts, cross-examination, and all trial rights.<sup>106</sup> Under the 1999 amendments to the reexam statutes, however, this is no longer an option. You can only take a reexam, an *ex parte* reexam<sup>107</sup> (perhaps *inter partes*<sup>108</sup> too) to a federal Court of Appeals, and the agency receives deference on its fact findings. The fact that the agency gets more deference on a re-exam than they do in the initial grant of a patent does not make sense. As a company, we have raised money on the strength of our IP, and we have hired people on the strength of our IP, and it is difficult to think that you have to put out a product placement memorandum that has a caveat stating that we have been issued patent rights, but those rights will only protect us if some big infringer does not march in and take

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106. If an applicant is not satisfied with the decision of the Board of Patent Appeals and Interferences, he or she may “have remedy by civil action against the Commissioner in the United States District Court for the District of Columbia . . . .” 35 U.S.C. § 145 (2000).

107. Anyone may submit a request to the PTO for an *ex parte* reexamination of a patent. See 35 U.S.C. § 302; Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy Against Patent Threats*, 23 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 185 (2006). One of the defining characteristics of an *ex parte* reexamination is the limitations placed upon the requestor’s participation throughout the reexamination proceeding. *Id.* at 186. If the PTO determines that there is a SNQ and decides to proceed with reexamination, the patent holder can elect to submit a written statement countering the allegations of patentability. 35 U.S.C. § 304. The reexamination requestor then may respond to the patent holder’s statement. *Id.* From this point on, the claims are examined without participation by the requester. *Id.* § 305. For these reasons, an *ex parte* reexamination is not viewed as an adequate opportunity for a third-party to litigate its claims. Gerald J. Mosshoff & Vivian S. Kuo, *Post-Grant Review of Patents: Enhancing the Quality of the Fuel of Interest*, 85 J. PAT. & TRADEMARK OFF. SOC’Y 231, 238 (2003).

108. An *inter partes* reexamination is an alternative to the limited participation afforded with an *ex parte* reexamination request. Barrow, *supra* note 98, at 637. One advantage of an *inter partes* reexamination is the requestor’s opportunity to participate more during the reexamination proceedings. *Id.* Another advantage of an *inter partes* reexamination is the prospect of appeal. *Id.* at 634. If the requestor is not satisfied with the outcome of a reexamination, he or she may appeal to the Board of Patent Appeals and Interferences and later to the Federal Circuit. Eric E. Williams, Comment, *Patent Reform: The Pharmaceutical Industry Prescription for Post-Grant Opposition and Remedies*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 354, 358 (2008). Conversely, if the patent holder is not satisfied with the reexamination and files an appeal, the requestor may still participate in the appeal. *Id.* However, one disadvantage is “the cost for filing a request for an *inter partes* reexamination[, is] . . . nearly 350% greater than the cost of filing an *ex parte* reexamination request.” *Id.* Another distinct disadvantage is the prospect of estoppel, because “[i]f the USPTO grants a requestor’s petition for *inter partes* reexamination, the requestor is ‘estopped from . . . [re]litigating] the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester raised or could have raised during the *inter partes* reexamination proceedings.’” *Id.* (quoting 35 U.S.C. § 315(c)). For these reasons, parties are less likely to file for an *inter partes* reexamination. *Id.* at 358–59.

the rights, in which case we are forced to compulsorily license and then our market will be destroyed. That is kind of tough to put in a PPM.<sup>109</sup> It is not what people think of as patents.

LAWRENCE SUNG: I want to begin by thanking our three panelists for excellent discussions this morning that really give us a sense of the breadth and complexity of all of these issues. We will go ahead and open it up to any questions in the audience.

QUESTION: This question is for all of the panel members. This question is regarding some of the complexities, discrepancies, and interpretations of real property going back to the 1800s and of IP property. We use the term “property” to refer to all types of property, but do you think all property is clearly equal, and if so, do we need some interpretation of the law of property rights? If not, do you think property should be treated differently? If so, is it correct for owners to behave differently with the different property rights that they possess?

THOMAS WOOLSTON: This issue comes up in this paper that I handed out to you. There is a school of thought which alleges that a patent right is solely a creature of statute. If the statute says the commissioner can take it away, you have agreed to that bargain when you filed for your patents, and you take your rights no greater and no less than what the government gives you by statute. I have a problem with this line of reasoning because there is a Seventh Amendment issue.<sup>110</sup> You cannot conjure away the Seventh Amendment, which is what this regime is doing. There are Seventh Amendment rights to a U.S. patent and it is part of our form of gov-

109. A private placement memorandum (PPM) is a document “given to investors before an investment is made . . . .” Thomas C. Pearson & Julia Lin Pearson, *Protecting Global Financial Market Stability and Integrity: Strengthening SEC Regulation of Hedge Funds*, 33 N.C. J. INT’L L. & COM. REG. 1, 74 n.429 (2007). Also known as an offering memorandum, the document “generally includes a brief statement of [potential] risks.” *Id.* One purpose of a PPM is to serve as a device that “convey[s] credible information to buyers” to facilitate agreements by “reduc[ing] the informational asymmetry” between parties. Peter V. Letsou, *The Scope of Section 12(2) of the Securities Act of 1933: A Legal and Economic Analysis*, 45 EMORY L.J. 95, 129 (1996). A properly written PPM may also potentially serve as a defense to future allegations of fraud. See Howard M. Downs, *Federal Class Actions: Due Process by Adequacy of Representation (Identity of Claims) and the Impact of General Telephone v. Falcon*, 54 OHIO ST. L.J. 607, 675 n.272 (1993) (citing *Riordan v. Smith Barney*, 113 F.R.D 60, 62–64 (N.D. Ill. 1986)).

110. The Seventh Amendment of the U.S. Constitution guarantees the right to a jury trial. U.S. CONST. amend. VII. The controversial issue of whether the right to a jury trial extends to intellectual property cases is based on “the practical abilities and limitations of juries” when confronted with the factual and legal complexities normally found in these cases. LeRoy L. Kondo, *Untangling the Tangled Web: Federal Court Reform Through Specialization Internet Law and Other High Technology Cases*, 6 UCLA J.L. & TECH. 1, 95–96 (2002) (quoting *Ross v. Bernhard*, 396 U.S. 531, 538 n.10 (1970)). In 1996, the Supreme Court held that although the right to a jury trial in intellectual property cases remains protected, the construction of a patent is not a question of fact for a jury, but a question of law exclusively within the province of the court. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372, 388 (1996). The Court supported its decision by noting that common law precedent showed that judges, not juries, construed specification terms and by reasoning that judges are more likely than juries to give proper interpretation to highly technical patents because of their training and discipline. *Id.* at 384, 388–89. This decision was also found to be consistent with the policy objectives of maintaining uniformity and predictability of judgment and “foster[ing] technological growth and industrial innovation.” *Id.* at 390.



ernment that you cannot have one branch of the government meddling around with the other branches to create a mixed executive and judicial power. We fought a war over it.

ANDREW BECKERMAN-RODAU: The definition of property, at least from a legal perspective, means we have decided the government is going to protect certain rights, whatever they are. In that sense, all property is the same. The differences come in with the limits and types of remedies that are going to apply to those rights. Even I am guilty slightly of an overstatement when saying, "If it is a property right, you are entitled to a permanent injunction," we do not generally do that. There is clearly a trend, even in real property, in areas of law like nuisance, where courts are increasingly not awarding permanent injunctions, but instead are giving damages. But there has to be some legitimate reason for making that deviation. The problem in the patent area is that the *eBay* case does not explain why we are going to change this area of law such that we are not going to give permanent injunctions, and I believe that it is going to have a negative effect. If there is a clearly demonstrated reason why it would be more beneficial to a capitalist economic system that we give compulsory licenses, then maybe it does make sense to offer remedies. We have done that in real property. However, I am not sure that anyone has demonstrated, other than by rhetoric, that patent trolls are bad people, and therefore they should have less rights. I am not sure that rhetoric passes for detailed thoughtful analysis. Which also brings up the other very troubling thing about *eBay*, which is that the importance of precedent is really critical. Business people often will tell you, "We do not care if the rule is right or wrong or if the lawyer is right or wrong, we just want to know what the rule is." In *eBay*, the Court took 150 years of precedent, in which everyone thought the rule was clear, and all of a sudden the rule was wiped out.

QUESTION: Is there a constitutional basis for creating an intellectual property right among science and art and any solution to creating intellectual property rights? Should that not be entrenched or applied in looking at how owners exercised the rights so that, if the court does not find the intellectual property right to be amongst the arts and sciences, then is it in the court's power to substitute its interpretation for the owner's interpretation and say that the property right should be among science and art?

F. SCOTT KIEFF: There are a couple of issues that are on the table and we are not going to be able to answer them completely for you here now. One issue is, what do you get out of Article 1, Section 8, Clause 8?<sup>111</sup> I think the winning argument on that issue is that it is a grant of power to Congress to do what Congress wants. However, it is not a so called constitutional right the way we think of constitutional

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111. The Patent and Copyright Clause provides that "[t]he Congress shall have Power To . . . promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8, cl. 8.

rights colloquially. The next issue on the table is, whether patents are at least appropriately considered regulatory entitlements or property rights for purposes of takings jurisprudence. Remember in your takings thinking, you have to ask the question, “Is this something that Congress giveth, and Congress can taketh away at Congress’s whim, or is this something that if Congress or the government in some way chooses to take away then under the Fifth Amendment?”<sup>112</sup> Congress sure can, but there is a compensation trigger from the Takings Clause. On that question, you have to ask a whole set of subsidiary questions. You have to ask about so-called regulatory takings jurisprudence,<sup>113</sup> which is actually a little bit too complex to talk about right now, but I will just footnote that to talk about later if you want. There is so-called plain vanilla takings jurisprudence, and to answer those questions you want to ask, “What is the historical treatment?” For that question, you should look to a body of literature by Adam Mossoff<sup>114</sup> where he tracks treatment of IP rights in the early part of the U.S. history and says that there are some privileges that you think of, similar to your kids’ right to claim dessert after dinner if your kid finishes the main course. If you do not give your kid dessert after dinner, the kid does not

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112. “[N]or shall private property be taken for public use, without just compensation.” U.S. CONST. amend. V. When the question was first brought to the Supreme Court, it was declared that the Takings Clause of the Fifth Amendment protects citizens when, in an act of eminent domain, the government’s actions have the effect of depriving a property owner of all or most of his or her interest in the property, such as by destroying it or damaging it. *United States v. Gen. Motors Corp.*, 323 U.S. 373, 384 (1945) (holding that the government owes the leaseholder of a warehouse just compensation for the value of the occupancy of the lease, and for the destruction and depreciation in value of the items on the premises). Property protected by the Takings Clause, does not just refer to the physical thing, but it refers to the bundle of rights that goes with ownership, including the rights to possess, use, and dispose. *Id.* at 378.

113. “Regulatory takings” refer to government regulations of private property that may be so restrictive that in some instances their effect is that of a direct appropriation or ouster. *Pa. Coal Co. v. Mahon*, 260 U.S. 393, 415 (1922) (“The general rule . . . is, that while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking.”). The Court has recognized that such regulatory takings may be compensable under the Takings Clause of the Fifth Amendment. *Id.* The Court looks to several factors, such as the purpose of the regulation and extent the regulation deprives the owner of the economic use of the property, to determine if the regulation has put a burden, which should be borne by the public, unfairly on the lone property owner, in which case compensation is required under the Takings Clause. *Yee v. City of Escondido*, 503 U.S. 519, 522–23, 538 (1992) (holding that a city ordinance against mobile homes did not effect a physical taking, but avoiding the issue of whether such an ordinance constitutes a regulatory taking, by finding that petitioners did not properly raise the question in the lower courts).

114. See Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent “Privilege” in Historical Context*, 92 CORNELL L. REV. 953, 958 (2007) (stating that the history of early American patent law is often viewed as a system of special monopoly privileges without any natural rights justifications, whereas privileges used to be associated with natural property rights). Mossoff contends that courts, lawyers, and scholars accepted Thomas Jefferson’s view that patent rights were privileges granted by the government, “reject[ing] the notion that inventors have a natural property right in their inventions[,]” because Jefferson was one of the few Founders to speak on the policy reasons behind the Copyright and Patent Clause. *Id.* at 962–64. Mossoff examines the context of the term ‘privileges’ in its historical use to determine that patent rights are “civil rights securing property rights” and not solely “utility-enhancing monopol[ies]” as the followers of Jefferson’s view seem to believe. *Id.* at 1011–12; see also Adam Mossoff, *Rethinking the Development of Patents: An Intellectual History, 1550-1800*, 52 HASTINGS L.J. 1255 (2001) (tracking patents from their beginnings in the 16th century as royal grants by Queen Elizabeth to present day to contest the general belief that patents have no root in natural rights).

get to bring some constitutional deprivation of right cause of action against you. This is privilege the way Thomas Jefferson called IP rights, “embarrassments,”<sup>115</sup> that is one definition of privilege. But another definition of privilege at the time was privilege as used in the Privileges and Immunities Clause.<sup>116</sup> Remember the other clause in the Constitution, the clause that recognizes that there are some things that are so important that they are constitutionally protected. That clause calls them two types of things: privileges and immunities. The immunities referred to what people think of as natural rights, and the privileges referred to what people think of as rights protected through the social contract, and those happen to include IP rights. So, again, that is the outline for the historical analysis.

Then there is another outline you can work through for the economic analysis, regardless of what the law says, and regardless of what the constitution says, of how things would play out. That outline we have already talked about, so just to conclude, I will say that you really have to look at each of those separate topics, and there is a lot of literature out there.

QUESTION: I would like to take the arguments against the *eBay* case and take them a little further. I think that there is a trend toward making patent law similar to other substantive areas of law, in that it might be easier for district court judges to decide patent law cases. In the *eBay* case, that rationale actually does not play out exactly, because it is not necessarily easier for a district court judge to apply the new rule, although it is familiar to the district court judge because—under the prior rules—when the court rules on patent law, you always see an injunction. But at the same time it is a trend of giving the district court judges tools with which they are more familiar. There is an objective recklessness standard of *Seagate*,<sup>117</sup> the more traditional test that we talked about with *MedImmune*, and the other actions.<sup>118</sup> If you could all comment on some potential benefits to making patent law

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115. “Jefferson saw clearly the difficulty in ‘drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not.’” *Graham v. John Deere Co.*, 383 U.S. 1, 9–10 (1966) (quoting Thomas Jefferson and discussing his views of the patent system as the beginnings of the conditions for patentability including the novelty and utility tests).

116. “The Citizens of each State shall be entitled to all Privileges and Immunities of Citizens in the several States.” U.S. CONST. art. IV, § 2, cl. 1.

117. *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007). The court in *Seagate* articulated an enhanced standard for proof of willful patent infringement, which permits enhanced damages, requiring a showing of objective recklessness. *Id.* at 1371. The court acknowledged the vagueness of the term ‘reckless’ and therefore clarified its new standard by stating that in order to establish willful infringement, a patentee must show that, regardless of his state of mind, “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *Id.*

118. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007). In *MedImmune*, the Court rejected the old rule requiring “a reasonable apprehension of suit” to determine if there is a “case or controversy.” *Id.* at 125, 132 n.11. The Court explained that this traditional test contradicted precedent cases involving injunctions because “[a] licensee who pays royalties under compulsion of an injunction has no more apprehension of imminent harm than a licensee who pays royalties for fear of treble damages and an injunction fatal to his business.” *Id.* at 132 n.11. The Court also found it to conflict with an insurance case “where jurisdiction [was] obtained even though the collision-victim defendant could not have sued the declaratory-judgment plaintiff-insurer without first obtaining a judgment against the insured.” *Id.* The Court concluded that it would adopt a

a little more like other substantive areas of law, looking at other policy issues that are in play here, and the fact that district court judges really struggle tremendously with patent law cases?

ANDREW BECKERMAN-RODAU: I have to quibble with one premise in your question. I think *eBay* does the opposite. If we are going to give district court judges the ability to treat patent cases like regular cases, the tradition in the United States legal system is that willful infringement of property rights results in injunction. That is the standard approach across the board, regardless of the kind of property disputes, so we are actually changing the ball game. It also raises another interesting issue that just came to mind. One of the things about *eBay* that we have not talked about and that many people do not talk about because it is a topic that scares a lot of people more than patent people, is that *eBay* is not limited to patent law. *eBay* applies to any request for a permanent injunction in a federal dispute. The case has already been applied, across the board, in trademark, in copyright, and in numerous other areas of law, including fair housing and everything else. I am not sure *eBay* is giving district court judges the ability to use normal tools; I think it is changing everything radically.

THOMAS WOOLSTON: We tried to include some copyright people in our debate. Record companies put teenagers in jail for copyright violations, and they would most likely attempt to significantly weaken injunctive rights in intellectual property cases. Professor Beckerman-Rodau is exactly right, it is probably going to affect a lot of different areas. I cannot remember the name of the case, but in a satellite case in Texas,<sup>119</sup> the court said that in a two satellite player market, there is a frequency right that must be granted by the FCC,<sup>120</sup> and since it has already disapproved the merger of the two companies, Dish and DirecTV, even if the injunction is granted,

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totality of the circumstances approach to determining whether a sufficient “case or controversy” existed, and held that such a case or controversy may continue to exist even when a licensee is still making royalty payments under a challenged license agreement. *Id.* at 131 n.10.

119. *Finisar Corp. v. DirecTV Group, Inc.*, 523 F.3d 1323 (Fed. Cir. 2008). *Finisar* involved an infringement action against DirecTV by the owner of a patent relating to an information broadcast system used in satellite television. *Id.* at 1326. At trial, a jury found DirecTV to have willfully infringed Finisar’s patent and awarded reasonable royalty damages. *Id.* at 1326, 1328. The district court sustained the jury’s verdict, but denied Finisar’s request for injunctive relief and instead imposed a compulsory license. *Id.* at 1328. When the district court analyzed Finisar’s request for injunctive relief, it looked to the four factors specified in *eBay*: irreparable injury, remedies at law, hardship and public interest. Transcript of Record at 123–26, *Finisar*, 523 F.3d 1323 (No. 1:05-CV-264) (citing *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006)). In its analysis of whether injunctive relief was appropriate, the court noted that it was concerned about exclusivity in the satellite field where there are only two competitors and where an anti-trust action has already been brought to prevent the two competitors from merging. *Id.* at 44, 124. The court reasoned that it would be imprudent to grant an injunction against one of the satellite companies that would create a total monopoly of satellite television in the country. *Id.* at 124–25. The Federal Circuit vacated the jury’s verdict, thus rendering the district court’s denial of injunctive relief moot. *Finisar*, 523 F.3d at 1339.

120. Federal Communications Commission. See generally Guy Krogh, Note, *The Satellite Competition Debate: An Analysis of FCC Policy and an Argument in Support of Open Competition*, 40 SYRACUSE L. REV. 867 (1989) (explaining the FCC’s treatment of frequency rights as they relate to the FCC’s goals of developing the satellite industry, promoting competition, and avoiding monopolies).

it is impossible to provide a remedy that will allow you to enter the market because it cannot provide all of the critical pieces. This is more like the judicial equity from 100 years ago in which courts enter monetary damages because the injunction will not give the full relief.

In our case, it became the creative writing of the judge; it became a matter of discretion. We had one of the big industry players say that if we got the injunction, they would not only begin paying royalties and enter into joint marketing agreements with us, but we had a potential merger deal with UBid, which is the only violent player left in that space. If we could not get an injunction in this scenario, then there is some temporal limitation on the judge. It would be perfectly reasonable for us, since the patents did not expire until 2015, to take the time to enter this marketplace. It would not be unreasonable for us to get the injunction, recapitalize, merge with UBid, and exploit our patents that way. That is not irrational economic decision-making. In fact, because of the way that the oxygen has been sucked out of the room due to their massive infringement, there is no other way for us to do it. If we could not get it in that situation, I do not know when you could get the injunction.

Some of it is anti-economics. If you are asserting a patent, that means you are already on the losing end of the market share equation. You are already doing something with a patent to regain your market share, and you have to get that infringer out or you have to change the equation. From the infringer's point of view, if you are on that down slope, the longer they can hold off the day of reckoning, the more beneficial it is to them because they will have you out of the market and they will have the market share.

So when you assert a patent, for a legitimate business reason, you are almost by definition already on the losing side of that equation. We were way on the losing side of that equation, but almost everybody is when you go to assert a patent. If you have to assert a patent right under cover, it just means you have lost in the marketplace. Coming from Microsoft, that means that anytime you bundle an innovation with a release, it is immediately distributed and you have a huge market share. But for all the rest of us startups trying to break into the market, we have to protect these rights. There is no other way to break into these markets.

F. SCOTT KIEFF: There is a question of baseline. You are absolutely right that, in a funny way, *MedImmune* brings declaratory judgment jurisdiction for patent cases more in line with some other bodies of law, making it generally applicable.<sup>121</sup> How-

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121. The standard adopted in *MedImmune* significantly lowered the bar for declaratory judgment jurisdiction in the courts, representing a sweeping change in law allowing many more courts to obtain jurisdiction over cases, that otherwise would not be able to under the previous “reasonable apprehension of suit” test.” *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1384, 1385 (Fed. Cir. 2007) (Bryson, J., concurring); see also *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1345–46 (Fed. Cir. 2007) (holding that where Teva alleged that its proposed new drug did not infringe on five patents owned by Novartis, and Novartis sued for infringement on one of the patents, that Teva could seek declaratory judgment to obtain

ever, the problem is we are not writing against a clean slate. *Lear* is a very strong, Supreme Court, judge-made presence in the patent space that has no statutory basis at all. *Lear* was the part of the Supreme Court jurisprudence that took patent cases out of line.<sup>122</sup> The post-*Lear* rules<sup>123</sup> were the best way we mortals could deal with this very bizarre problem. Thus, the *MedImmune* result only returns us to that problem and enhances it, so it is not as simple as just bringing things back in line with “normal,” it is bringing things in line with some view of normalcy and some view of really perverse behavior. I do not know that I find any good in that set of cases—at least to the extent that it does anything with the law. Now if these cases actually do not change the law, I have used my own Jedi mind trick approach. Right after *eBay* was issued, courts were saying, “This is a non-event; this actually has not changed the law.” And in fact, you can apply the four factor test and get to exactly the same behavioral pattern that we got to under the so-called old law.<sup>124</sup> And so all this does is say that the right to an injunction after an infringement and validity determination is not a general rule—it is just general practice. That was really our effort to do a Jedi mind trick because as you correctly pointed out, there are presently two behaviors you see in the district courts: courts enforcing injunctions, as you point out with so called practicing entities, and courts not with so called non-practicing entities. But that is just a snapshot of the static. We are all smart boys and girls and we are all going to start doing what Rembrandt IP did in

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patent certainty on the other four patents, even when Novartis had expressed no intention to sue on the remaining patents).

122. In *Lear, Inc. v. Adkins*, the Supreme Court invalidated the doctrine of licensee estoppel, preventing a licensee from denying the validity of patent in a suit for royalties under a license agreement, as long as the licensee was still operating under the license agreement. 395 U.S. 653, 671 (1969). The Court argued that licensees’ interests should be protected because licensees are among the few with enough economic incentive to challenge patent validity, and thus were a necessary part of ensuring that licensors were not monopolizing inventions that should otherwise be in the public domain. *Id.* at 670. However, in protecting the interest of the licensee, the Court increased the risk for the inventor that he will not achieve an exclusive right or monopoly, disincentivizing inventors from investing in research and development, and thus negating the goal of the patent system. Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677, 679–81 (1986).

123. Compare Christian Chadd Taylor, *No-Challenge Termination Clauses: Incorporating Innovation Policy and Risk Allocation into Patent Licensing Law*, 69 IND. L.J. 215, 235–44 (1993) (analyzing the way federal courts broadly interpreted *Lear* to impose greater restrictions on licensors and give more power to licensees), with Sean M. O’Connor, *Using Stock and Stock Options to Minimize Patent Royalty Payment Risks After MedImmune v. Genentech*, 3 N.Y.U. J.L. & BUS. 381, 423–28 (2007) (suggesting that the treatment of a handful of cases in the Federal Circuit kept a form of licensee estoppel alive even after *Lear*).

124. Prior to *eBay* there was a general rule that the Federal Circuit would “issue permanent injunctions against patent infringement absent exceptional circumstances.” *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006). A court could reach the same result under *eBay* as it would have under the old rule, if it applies the four factor analysis and deems a permanent injunction is appropriate. Jeti Gibson, *Almost Quiet on the Copyright Front: eBay’s False Alarm*, 14 RICH. J.L. & TECH. 6, 29, 37–38 (2007) (explaining that the results of a case could be the same both before and after *eBay* since “[t]he decisions both pre- and post-*eBay* hinged upon proper analysis of the *Weinberger* factors, though not always specifically articulated” and because “*eBay* did not completely wipe out permanent injunctive relief—it merely paved the way for the ‘public interest’ to be disserved in more cases than usual if the infringer is a corporation . . . upon which the public is largely dependent for technology, education, or entertainment”).

their recent litigation against the contact lens industry, where they sued two players. They predicted the result you correctly identified and reacted by settling with one of them so that they became a practicing entity, and then sought an injunction against the other one. So if in order to be a practicing entity all you need to do is strike a contract with somebody, then *eBay* has not changed anything at all, except maybe made for an inefficiently large number of contracts because presumably the efficient solution was people choosing not to enter these form agreements, and they are now going to choose to enter simply for the purpose of pulling the wool over the eyes of the district judge. And of course district judges are not dummies either, so they are going to quickly start looking back at all of these cases saying, "Well, you are a practicing entity, you get an injunction," and then they are going to start saying, "Actually, you no longer do that, plus you are a faux practicing entity." So I think that we really do have huge problems that are coming down the pike, although I agree that I would like to call all of this normal, and I agree I would like to say it really does not change any of it at all. I am afraid that is just not what is going to happen.

LAWRENCE SUNG: And in some ways, what we have not even touched on is the potential collateral access to justice issue. When *eBay* came down the pipe, to whatever extent there was contingency-fee patent litigation available, that basically all dried up in a fell swoop because there is no longer the hammer of injunctive relief to really buy into that. So even before you get your stage, the question is, can smaller companies that are rallying against larger companies in that context even begin to have fair legal representation on their behalf?

F. SCOTT KIEFF: And then there are a whole set of separation of powers problems. It has become a real trend to bring your causes of action and your arguments in patent cases to multiple courts. That is fine, we all used to do that. Now it is multiple agencies. You go to the FTC,<sup>125</sup> you go to the ITC,<sup>126</sup> you go back to the PTO, you go back to the PTO again, you get your friend to go back to the PTO on your behalf, and you get their friends to go back. So now everyone's door is open in Washington in the administrative agency setting to hear arguments that, if their agency were just to intervene on just their particular sets of cases, they could actually control the troll problem, or the business problem, or the method problem, or the business method troll problem, and they are all happy to do it.

But it does not stop there. You also get, in addition to courts and in addition to agencies, the legislature. It has now become practice, if you are a serious defendant in a patent case, to write letters to your senators and your congressional representatives, to try to get them to hold hearings on your opponent's patents, and to get them to write letters to the directors of agencies. Returning to the point about the political influence here, it is shocking to read some of those letters. These are letters

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125. Federal Trade Commission.

126. International Trade Commission.

that say things like, “this is a particularly bad patent,” or “this is a particularly weak patent.” But wait a minute. In our society we have developed a method for answering those questions. It is called the Federal Rules of Civil Procedure, and you have a jury trial and you have witnesses with cross-examinations and with lawyers. It is not a set of secret letters to my senator or your senator so that she can then say it is because this particular patent is so bad, we need to have a special exemption to our new patent reform bill, or we need to have a special procedure, or a new set of hearings before our committees, all of which have the same effect—patents are wasting assets. A couple of years go by, and the patent is no longer worth anything and injunctions are not an issue because the patents expire. All you need to do is play this game for a non-trivial amount of time, three, four, five, seven years, and pretty soon you have gotten rid of the entire commercial value of the patent. We do not want that as our socially attractive option, and that is exactly where we are today. That is descriptively an understatement of the traffic that is occurring on the Hill, in the agencies, and in the courts on these issues. And that is horrible because it means that the people with the biggest litigation and lobbying budgets on average win. I thought patents were about increasing competition, not decreasing competition.<sup>127</sup> That means that these become fully effective tools for large players to keep out small players. But it is actually bad for large players too, because it makes overall the system one of total arbitrary unpredictability, and that means overall net investment will substantially decrease. That is bad for everyone.

LAWRENCE SUNG: Time for just a few more questions before we move on.

QUESTION: I think you are dead on as far as *eBay* and the courts with the way that they have settled the injunction point by pushing people out of court to a certain extent to go to these nefarious tactics that you have just illuminated. My question to you is, how do we fix that, because, realistically, I read every couple of months about service-based economy<sup>128</sup> and moving to basically patents deriving business in an incredibly new way in the next generation. So how do we do that if every single transaction eventually is going to be litigated?

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127. Patents are designed to incentivize inventors and innovators by offering exclusive rights the inventor can use to obtain greater profits by not having direct competition. *Biotech Indus. v. District of Columbia*, 496 F.3d 1362, 1372 (Fed. Cir. 2007). The goal is to bring inventions into public knowledge, so that ultimately, after the patent period ends, everyone can use the invention, giving the public the benefit of increased competition and resulting in lower prices. *Id.* at 1373.

128. A service-based economy is based upon selling personal and professional services as opposed to the selling of manufactured goods. *See generally* Thomas Earl Geu & Martha S. Davis, *Work: A Legal Analysis in the Context of the Changing Transnational Political Economy*, 63 U. CIN. L. REV. 1679 (1995) (proposing public policy based changes in the law to accommodate the inevitable shift in the workforce model accompanying the shift to a service based economy); Georgette C. Poindexter, *Separate and Unequal: A Comment on the Urban Development Aspect of Brownfields Programs*, 24 FORDHAM URB. L.J. 1 (1996) (examining the effectiveness of state and federal “Brownfields” programs on creating jobs in areas negatively impacted by deindustrialization, i.e., shifting from a manufacturing based economy to a services based one).



F. SCOTT KIEFF: You do what the 1952 Act tried to do,<sup>129</sup> you do what the Federal Circuit initially did.<sup>130</sup> The bill happened to have been signed by Reagan but was pushed by Carter. You do what we recognize as a bipartisan, centrist approach.<sup>131</sup> You recognize that Ulysses lashed himself to the mast so he would not be attracted by the siren song to steer his boat to the shoals and crash. You constrain yourself. And we should lash ourselves to the mast by saying, “Actually, the people who should be deciding these issues are federal courts using the Federal Rules of Civil Procedure—that include rules like joinder<sup>132</sup>—to make sure that all the issues that really should be in the case are in the case. Rules like Rule 56,<sup>133</sup> so that if there is no genuine issue of material fact, we can throw out the case. And rules like preclusion,<sup>134</sup> so that we do not get perpetual litigation.” That is what the Federal Rules

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129. The 1952 Patent Act was intended to codify and clarify the patent laws in order to remove any doubt and confusion created by the courts. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 202–04 (1980).

130. The Federal Circuit was created in 1982 to “increase[ ] uniformity in patent law” and decrease forum-shopping by litigants for courts with perceived pro- and anti-patent biases, with the ultimate goal being that litigation would be reduced because the law would be known and the outcome of cases would be predictable. Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 HARV. J.L. & TECH. 37, 67 (1993). By reducing the opinions of twelve courts into one court, the Federal Circuit did create instant uniformity in the area of patent law. *Id.* at 68. However, since its creation, the Federal Circuit has produced several conflicting decisions, leaving the district courts unsure how to apply certain standards of patent law and making case outcomes uncertain. See *SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1316–17 (Fed. Cir. 2006) (recognizing an apparent conflict in the treatment of product-by process claims by the court).

131. The bipartisan, centrist approach refers to the necessity of having support from both major political parties, which often comes from having moderate proposals, in order to pass major legislation. David Fontana, *The Current Generation of Constitutional Law*, 93 GEO. L.J. 1061, 1065 (2005). “Only initiatives that have broad bipartisan support are likely to be enacted, and polarization makes it difficult to assemble a bipartisan majority for major policy initiatives.” *Id.* (quoting MARK TUSHNET, *THE NEW CONSTITUTIONAL ORDER* 22 (2003)).

132. The Federal Rules of Civil Procedure allow for joinder of claims and parties. FED. R. CIV. P. 18–21. Under Rule 18(a), parties may join all claims they have against their opponents to reduce redundant litigation and avoid issue preclusion. *Lanier Bus. Prods. v. Graymar Co.*, 342 F. Supp. 1200, 1203 (D. Md. 1972). Additional parties may be required to join under Rule 19, where a party is either present and “necessary” or absent and “indispensable.” *Wright v. First Nat’l Bank*, 483 F.2d 73, 74 (10th Cir. 1973). Rule 19 balances the court’s impulse to broaden the litigation with fairness concerns, while encouraging joinder of claims, parties, and remedies. *Mayer Paving & Asphalt Co. v. Gen. Dynamics Corp.*, 486 F.2d 763, 771 (7th Cir. 1973). Rule 20 allows for permissive joinder of additional parties, at the court’s discretion, where those parties’ claims are connected to the same transaction or occurrence. *Mosley v. Gen. Motors Corp.*, 497 F.2d 1330, 1333 (8th Cir. 1974). The purpose of permissive joinder, like other Federal Rules, is to promote judicial efficiency and prevent multiple lawsuits. *Id.* at 1332. Under Rule 21, courts can correct misjoinder or non-joinder of parties or claims and “sever unrelated claims . . .” *American Fid. Fire Ins. Co. v. Construcciones Werl, Inc.*, 407 F. Supp. 164, 190 (D.V.I. 1975).

133. Rule 56 of the Federal Rules of Civil Procedure establishes summary judgment procedures. FED. R. CIV. P. 56. Courts use summary judgment to terminate useless litigation when no disputed issues of fact exist. *Flynn v. Sandahl*, 58 F.3d 283, 288 (7th Cir. 1995); *Short v. Louisville & Nashville R.R.*, 213 F. Supp. 549, 550 (E.D. Tenn. 1962). Summary judgment takes away a litigant’s right to trial by jury, where no facts could be presented at trial to support their claim or defense. *Id.* The moving party bears the burden of demonstrating there are no genuine issues of material fact to be tried. *Id.*

134. Preclusion encompasses the distinct doctrines of claim preclusion and issue preclusion. *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320, 1323 (Fed. Cir. 2008). Claim preclusion prevents litigation of claims which should have been raised in a prior action. *Id.* Claim preclusion applies where: (1) the parties involved are the same; (2) a previous action has reached final judgment; and (3) the second claim is related to the same transaction or occurrence as the first. *Id.* at 1324. Issue preclusion, on the other hand, prevents courts from

are written to do. They work pretty well for normal, commercial litigation. That is why they are *the* Federal Rules of *Civil* Procedure. They do not work for criminal cases, but they work pretty well for commercial, civil cases. And so, to the extent there is a problem with the patent system, it is a problem of bad litigation. I think it affects both sides, patentees and alleged infringers, and there is a way our civil litigation system has developed to deal with that issue, too. Number one, you have Rule 11,<sup>135</sup> and number two, you have 28 U.S.C. § 1927,<sup>136</sup> the vexatious litigation statute. Additionally, the Patent Act has its own organic fee-shifting statute.<sup>137</sup> So there are ways to cabin bad behavior whether you are a patentee asserting a patent you know is bad or an infringer asserting an invalidity or a non-infringement argument that you know is bad. Just apply the simple rules that we have. How do you achieve that result? Maybe you return to the statute and say, “The Patent Reform Bill ought to say the following: injunctions, yes; treble damages, yes; fee shifting, yes; but symmetrical, it can go either way.” And at that point, let the parties fight over the facts.

QUESTION: This is probably oversimplified dramatically with the issues that are here. When you say that you are lamenting the fact that you cannot get an injunction because it does not provide you with the tools that you really need to hold the infringer accountable and get a just settlement from him, are you not really saying that the damages calculations that you use absent the injunction are not adequate?

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relitigating issues that have actually previously been decided. *Id.* at 1323. Issue preclusion prevents relitigating an issue, where (1) the issue had an opportunity to be litigated in a previous action; (2) the issue has been previously litigated; (3) the issue reached a final judgment; and (4) “the person against whom [preclusion] is asserted in the present action was a party . . . in the previous action.” *Kendall v. Visa U.S.A., Inc.*, 518 F.3d 1042, 1050 (9th Cir. 2008).

135. FED. R. CIV. P. 11. Rule 11 is intended to prevent frivolous litigation by requiring attorneys to certify that they believe that everything they file in a court has merit. *Laborers Local 938 Joint Health & Welfare Trust Fund v. B.R. Starnes Co.*, 827 F.2d 1454, 1458 (11th Cir. 1987). It requires that attorneys make reasonable pre-filing inquiries and pledge in good faith that the claim is supported by both law and fact. *Id.* Rule 11 facilitates sanctioning lawyers who violate the requirements of the Rule. *Chu v. Griffith*, 771 F.2d 79, 81 (4th Cir. 1985).

136. Section 1927 makes attorneys who proliferate extraneous lawsuits liable for the excess costs and attorneys fees that result. 28 U.S.C. § 1927 (2000). Attorneys owe a professional duty to the courts, and § 1927 makes attorneys responsible for costs incurred due to an attorney’s reckless disregard for that duty. *Piljan v. Mich. Dep’t of Soc. Servs.*, 585 F. Supp. 1579, 1583 (E.D. Mich. 1984). The statute applies where an attorney exercises bad faith and abuses the judicial process. *Merial Ltd. v. Intervet, Inc.*, 437 F. Supp. 2d 1332, 1335 (N.D. Ga. 2006). The standard for determining if an attorney acted in bad faith is whether the attorney knowingly or recklessly pursued frivolous claims or used obstructive tactics. *Id.* However, courts use § 1927 narrowly, not as a general purpose tool for punishing all misconduct. *Id.* at 1334.

137. “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285 (2000). The statute applies where the losing party’s misconduct has been (1) so outrageous that it constitutes fraud or (2) so reckless and unfair that it would be unconscionable to force the winning party to bear the cost of the litigation. *Q-Panel Co. v. Newfield*, 482 F.2d 210, 211 (10th Cir. 1973). Attorney fees will only be shifted at the discretion of the trial court when the winning party has met its burden of proving that an exceptional case exists. *Id.* Section 285 provides recourse for a patent holder entangled in a frivolous infringement action. *Sys. Mgmt. Arts Inc. v. Avesta Techs., Inc.*, 106 F. Supp. 2d 519, 523 (S.D.N.Y. 2000). The statute deters attorneys from filing baseless and unwarranted patent infringement claims. *Id.*

Because, if you had sufficient damages for the infringement, you would not care if you had the injunction or not; you would be happy with the result.

THOMAS WOOLSTON: Yes and no. Even if the jury had adopted our damages theory, the infringer still kept 98% of the profits from the infringing activity. So for every dollar they infringe, they kept ninety-eight cents and they got to multiply it by forty. By that point in the case, we thought we were going to get an injunction and were going to merge this company with Google and were going to do some serious billion dollar rearrangement of the economy because we could get an injunction that we agreed with. And after seventy-seven months of this, it became clear to us that the judiciary was not going to give it to us.

F. SCOTT KIEFF: But there are some broader pictures here. Number one, the only reason people choose to push the issue on the alleged infringer's side is precisely because they know they are going to get a lower price; otherwise they would not push the issue. They settle the case. So it has to be scientifically true that when you do so-called liability rule measure of damages, you get way lower numbers than you get when you do so-called property rule measures of damages. Number two, if it is not true, then even the liability rule proponents are going to be frustrated because we are always getting the wrong result with that. Number three, and most importantly, why do you, or I, or anyone else possibly think they know what the right number is?<sup>138</sup> I have no clue what the right number is in any case, nor do you, and

138. Where a patent has been infringed, courts may award compensatory damages to the patent holder or, at the court's discretion, issue an injunction. *Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 881 (Fed. Cir. 1995). Compensatory damages awarded to the patent holder are designed to make the patent holder whole by "return[ing] the patent owner to the financial position he would have occupied but for the infringement." *Id.* By receiving compensatory damages, the patent holder effectually licenses the patent to the infringer, thus terminating the patent holder's monopoly. *Id.* (citing *Union Tool Co. v. Wilson*, 259 U.S. 107, 113 (1922)).

Trial courts have wide discretion in calculating compensatory damages awards. *Milgo Elec. Corp. v. United Bus. Comm'ns, Inc.*, 623 F.2d 645, 663 (10th Cir. 1980). A patent holder is entitled to damages equal to, at least, a reasonable royalty for the patent infringed. *Trio Process Corp. v. L. Goldstein's Sons, Inc.*, 612 F.2d 1353, 1357 (3d Cir. 1980) (citing 35 U.S.C. § 284 (1976)). The many factors which courts may weigh in determining reasonable royalties damages include:

(1) royalties received for licensing of the patent in suit, proving or tending to prove an established royalty; (2) rates paid by the licensee for the use of other patents comparable to the patent in suit; (3) nature and scope of the license, e.g., exclusive or non-exclusive; (4) the patentee's established policy and marketing program to maintain his patent monopoly; (5) commercial relationship between the licensor and licensee; (6) effect of selling the patented specialty in promoting sales of other products of the licensee; (7) duration of the patent and the term of the license; (8) established profitability of the product, its commercial success, and current popularity; (9) utility and advantages of the property over the old modes or devices, if any, which produced similar results; (10) nature of the patented invention, the character of the commercial embodiment of it, and benefits to its users; (11) the extent to which the infringer has made use of the invention; (12) the portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses; (13) the 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; and (14) the opinion testimony of qualified experts.

*Sightsound.com Inc. v. N2K Inc.*, 391 F. Supp. 2d 321, 355 n.30 (W.D. Pa. 2003) (citing *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir.

we could not know unless we are the parties litigating the case. So why do we want to create incentives for us to pay all the money necessary to educate some neutral party, like a federal judge or an agency, to have enough information so that the judge, when she actually makes her decision, can get the right answer? That is a waste of resources for society. If you and I have that information, and we are on opposite sides of the “v,” the rule ought to be for us to get in a room and agree with each other, and not to leave that room until we have agreed with each other. It sounds bad; it sounds like negotiating with a gun to your head. I recognize that. I grew up on the South side of Chicago in a pretty bad neighborhood and we had a nice rule there—you get a lot further with a kind word and a gun than just a kind word. The bottom line is, having that gun to the head is what makes that conversation happen and the bottom line is, if people do not get a deal done, massive amounts of money are left on the table for both sides. And that is why big boys and girls actually do get the deal done. So it is a total waste of society’s resources to try to have you or me or anyone else figure out what the right price is. We almost always get it way too low, which is actually why infringers always want to get us to do it.

THOMAS WOOLSTON: When we brought the suit the infringing part was 2% of their business. By the time we got to the jury, it was 15%, by the time we got to the court of appeals it was 23%, and by the time we got done with SCOTUS,<sup>139</sup> it was almost 40% of their business. And their business was growing like crazy, so it just got too big to stop. The numbers just got too big and they knew it. The damages number we could have was off the charts. And that is why we could not get the district court to even attempt to give us the final decree. At that point, we either wanted the court to enjoin them or do a compulsory license. We just wanted to end the litigation. Seventy-seven months is enough. We could not make any business decisions during that time. If we had the injunction, we could merge the company. Once a judgment is issued, you have a different kind of property. You would actually stop them and move the markets if you had a right to money damages or some ongoing thing, which is a good thing, but it is a whole set of different business decisions. We did not have the enterprise value<sup>140</sup> and the revenue stream. We could not pay back our shareholders. That would be good, but we were not going to go

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1971), *cert. denied*, 404 U.S. 870 (1971)). Lacking an established royalty, the court may calculate a reasonable royalty through determining the outcome of a hypothetical negotiation between the parties held when the infringement started. *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1361 (Fed. Cir. 2006).

Another method of assessing compensatory damages is by calculating the lost profits of the patent holder due to the infringement. *Hartness Int’l, Inc. v. Simplimatic Eng’g Co.*, 819 F.2d 1100, 1112 (Fed. Cir. 1987). Calculations of the patent holder’s lost profits are imprecise and based on probable losses. *Milgo*, 623 F.2d at 663 (citing *Livesay Window Co. v. Livesay Indus., Inc.*, 251 F.2d 469, 471–72 (5th Cir. 1958)). While the patent holder must present some evidence of profits lost due to the infringement at issue, the proof does not have to be absolute. *Id.*

139. SCOTUS is the widely accepted acronym for the Supreme Court of the United States.

140. Business enterprise value is a comprehensive method for valuating a business which (unlike other valuation methods) takes into account intangible elements including “organization, management, . . . work

into the online auction market without our patent rights. We had been there and were destroyed, as everyone else was. So unless we had the right, we could not get into the market. It was like we had one foot in and one foot out, and we could not make the business decisions to even get in to it or get out of it because we could not get decrees from the court. Toward the end, we wanted to be put out of our misery. We just wanted the court to declare the compulsory license so we could make some business decisions and exit out of this business. Or, enter the injunction and let us know, and we will make some other business decisions.

LAWRENCE SUNG: Well, clearly there is no hesitation to continue this conversation, so, why not join us back here and then we will get started with our second session. I am pretty confident we will have some time to address some questions and continue that. Thanks.

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force, working capital, and legal rights such as trade names, franchises, and agreements . . . .” *Merle Hay Mall v. City of Des Moines Bd. of Review*, 564 N.W.2d 419, 423 (Iowa 1997).

