

Webcast: Patent “Trolls:” What Are They, and How Do You Deal with Them?”

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Presented by ACC's Litigation Committee and the law firm of [McKool Smith, P.C.](#)

Presenters: John DeGroote, Vice President, Deputy General Counsel & Chief Litigation Counsel, BearingPoint, Robert Manley, Principal, McKool Smith, P.C. and Mallun Yen, Worldwide IP Managing Director, Cisco Systems, Inc.

Moderator: Melvin Merzon, Senior Counsel, Retired, International Truck and Engine Corporation

ASSOCIATION OF CORPORATE COUNSEL

Moderator: Melvin Merzon

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(Mel Merzon): Particularly in view of the recent eBay decision, the practice of patent trolling has received considerable media attention. Just what is a patent troll? Who are these patent trollers? And most important, what steps, from a legal perspective, particularly that of in-house counsel, can be taken to meet and overcome these patent claims? To respond to these questions and offer you practical considerations to address these potentially destructive and possibly costly forces, may I introduce you to our three highly qualified panelists?

John DeGroote serves as deputy general counsel with BearingPoint, a well-known consulting firm offering business solutions worldwide, including intellectual property protection strategies. Sharing responsibility for the management of the corporate legal department, Mr. DeGroote has specific responsibility for overseeing the company's insurance portfolio and its intellectual property protection.

Robert Manley is a principal in the Dallas office of McKool Smith, whose practice focuses on litigation of complex business matters and intellectual property concerns. Mr. Manley serves, as well, as an adjunct professor at SMU Law School and is active in his firm's pro bono efforts to provide criminal defense to those in need of such services.

(Marilyn Nguyen), after handling technology transactions and patent litigation in private practice, today serves as the Senior Managing Director of Intellectual Property on behalf of Cisco Systems. As the company's chief intellectual property counsel, she bears responsibility for patents, trademarks and copyrights, including licensing and litigation.

Following their presentation and discussion, the panelists will be pleased to respond, as time permits, to those specific questions and concerns you may wish to express. We ask only that you put them in writing in the area at the left of your screen labeled, "Questions," then pressing, "Send." Please remember as well to complete the evaluation, which is also located to the left of your screen under "Links."

May I now turn the presentation over to John DeGroot.

John DeGroot: Thank you, (Mel). This is John DeGroot and greetings from Silicon Valley.

What is a troll? What is a patent troll? I have to, I have to confess that in the years that I've been handling these types of cases, I've used the term plenty of times and frankly, I've used it occasionally too often to describe plaintiffs in cases filed against my clients. In this, in this instance – by the way, to the web master, I'm getting a real bad echo here, where I can't really hear. I mean, I can't, I can't hear myself.

Operator: OK.

John DeGroot: I'm going to try again. I'm just going to go ahead.

So, I've used the term patent troll to describe plaintiffs in cases filed against my, against my clients, and in this, in this instance though, I went to Wikipedia to get the definition that they give us, and they say it's a derogatory term used to describe a patent owner, frequently a small company, which enforces patent rights against accused infringers, but importantly, does not manufacture products or supply services based on the patents in question. So it's somebody that asserts patent rights who, but who does not manufacture products or services.

Let's use a hypothetical case to talk about what a patent troll or what it, or what it isn't. The patent troll in this hypothetical example, let's say that they are a company that does not manufacture or produce any anything and provides no services. In effect, they are a bank of, they're a bank of patents and they go around the country offering to license those patents to people that are potential infringers, and in the event that the infringers do not license the patents back, then suit is filed. Most people would say, well that is definitely a, definitely a patent troll, but let's push the hypothetical just a little bit further. Let's say that it turns out that the bank of patents or the list of patents that are being asserted by this, by this company was actually invented by the head of the company, and once upon a time, the company had 125, 150 employees, but over time, competitive forces and perhaps even an infringement of their patents drove them out of the manufacture or the supply or the services business and left them only with an intellectual property, intellectual property portfolio. So once upon a

time, they were your traditional, what most people think of as the traditional patent holder, and over time became what some people might now think is a, is a troll.

Some of these questions drive us to the very essence of our patent holding system and our intellectual property, the system whereby we grant rights to intellectual property in this, in this country, and I don't want to, we're not going to push this into the overly philosophical, but what I do want to say is that efforts to define patent troll have been, have been futile. The congress has convened hearings on this and each time the term patent troll comes up, somebody's able to come up with an excellent example of a, of something other than a, than a, than a heinous little person who hangs out under a bridge and exacts a, exacts a toll to go over a bridge that he didn't build. And so, rather than name-calling and rather than throwing around terms like, like simply, patent troll, let's talk about what's relevant here. Whether we call people patent, or holders, patent trolls or we call them independent asserters, every interaction or every conflict with them, with the holder of a patent eventually becomes a product of the choices that we make. This webcast is designed to help people sort through the different issues that one encounters while working with a patent troll or an independent assenter, whether to seek an injunction, venue, whether to file a declaratory judgment action, how to prosecute your case and eventually, what's going to happen to patent reform based on the allegations thrown around about patent trolls or independent asserters.

My colleagues and I are going to talk to you about each one of these considerations today, but I want to, I want to, I want everybody to keep in mind the two, the two characteristics most important in this discussion. One is the entity does not make or sell any products or services, and two, they assert rights in their, in their patents. That's at the essence of what

some people consider patent trolls and, in fact, that brings us to the, to the photo or the picture that we have, we have put together to symbolize this. With that, though, I want to discuss, I want, I want to turn it over to (Marilyn Nguyen) to discuss injunctions in the context of patent trolls or independent asserters.

(Marilyn Nguyen): Thanks John. I think, I think one case that I think most of us by now are very familiar with and have been following is the eBay-MercExchange case, and to quickly review for those of you who might want to refresh your recollection, MercExchange owned several patents relating to online marketing technologies, but MercExchange was what sometimes is referred to as a non-practicing entity or a troll as it falls within the definition that John just talked about, in that it did not practice or have its own business. It was principally in the business of patent licensing and, as John described, MercExchange has licensing discuss, negotiations with eBay, which fell through and what followed was no surprise, a patent infringement action against eBay. And what was claimed to infringe was eBay's Buy It Now feature. So at the trial court, the district court, the jury found that MercExchange, I'm sorry, that eBay infringed and order, and awarded damages to MercExchange of almost \$30 million, but the district court refused to order an injunction, looking at various factors. The federal circuit then reversed the lower court's decision to deny the injunction and invoked the general rule that a permanent injunction will issue once infringement and validity have been adjudged. And you know, the reason they gave behind that is that the right to exclude in a patent is but the essence of the concept of property and that the injunction is a way for courts to give substance to that right to exclude. So it found that the district court erred in denying the permanent injunction. So eBay petitioned to the Supreme Court, and there are many companies and industry groups that files amicus briefs.

So the Supreme Court then vacated and remanded the case, finding fault with both the federal circuit's analysis and the district court's analysis. It noted that, what it did do was clarify what the standard should be and what the court should consider when they determine whether or not to award an injunction, and so the award of an injunction should not just be automatic. So these factors are that plaintiff must demonstrate that it suffered an irreparable injury, that remedies at law are available, such as monetary damages, that are inadequate to compensate for that injury, third, that considering the balance of hardships between the plaintiff and defendant, a remedy and equity is warranted and also, lastly, that the public interest would not be disserved by a permanent injunction. So the court gave this guidance, but what is more interesting is what, how the courts are going to be interpreting this guidance after this decision.

I'm going to turn it over to Robert, who, who's firm actually handled one of the first cases post eBay dealing with injunctions and then I'm going to talk about a couple of other cases that happened.

Operator: Robert, please go ahead.

Robert Manley: Thanks, Marilyn. This is Robert Manley. My perspective is coming from, basically, where the rubber meets the road and that's, we're the trial lawyers that actually then have to argue the cases and try to figure out what to do with the court's guidance on eBay, and I have identified four different cases, well three different cases that were post eBay where courts have tried to deal with the, with the challenge created by eBay where there's been a jury verdict of infringement, but an injunction is improper, and so the challenge that the patent holder has in that case is, OK, what do you do with infringement that occurs

after the verdict? There are three cases from the – two from the eastern district of Texas and one from the western district of Oklahoma I'd like to address, where we'd seen the judiciary's attempt to deal with that challenge. The *z4 Technologies, Inc. versus Microsoft* was a 2006 case and, touching briefly on the, on the relevant facts, the, at the end of a 12-day trial, the jury returned a verdict of willful infringement, awarded damages to *z4 Technologies* from Microsoft and Autodesk, and then the court engaged in the injunction analysis that Marilyn mentioned, the four factor test. And I won't go through all the facts that each of these courts felt relevant, but let me just touch on the ones in the *z4* case. In denying the request for an injunction, the court focused on the fact that the infringing technology was but a small part of the defendant's software, that the patent holder did not suffer any loss of profits or the loss of a brand name recognition or any market share, that the patent holder was not excluded from using the invention in a way that could not be remedied by money damages, and that the hardship that accrued to the, to the accused infringer far outweighed the hardship that would accrue to the patent holder as a result of the injunction, and lastly, that the redesign of the Windows Operating System would detrimentally affect the public. So those were the fact that, in the *z4* case, that the court found significant in denying the patent holder's request for an injunction.

But here are the points that I want to make about the judiciary's response to the question, OK, what do we do with future infringement? The eastern district court severed *z4*'s post verdict infringement cause in order for *z4* to file a complaint on those claims, and retained jurisdiction ordering Microsoft to file quarterly reports indicating the number of sold of the, of the products found to infringe, so in essence, what we have is, I guess, for lack of a better word, is a compulsory license situation. The same approach was applied by the eastern district of Texas in the *Finisar Corporation case versus DirecTV*. Same underlying facts,

infringement found by the jury, jury awarded damages, the court applied the eBay analysis and found that an injunction was improper, but did find that an ongoing royalty rate of \$1.60 per infringing product was appropriate, that the defendant, DirecTV Group should file quarterly reports, or rather, make quarterly payments and actually got down to the level of granularity where if the payments were 14 days late, the court ordered 10 percent interest compounding monthly on late payments. So that's the second case, post eBay that I found where the judiciary's tried to deal with this question.

The third came out just recently, September 5th of 2006, out of the western district of Oklahoma, and that's the Voda's versus Cordis case, basically the same analysis and same result. There is a case, National Instruments versus MathWorks, that this is not a case involving a litigant or a patent holder that does not make, use or sell anything. It is two direct competitors in a market. The case was decided pre-eBay, but I anticipate were decided post-eBay, the injunction would have been entered regardless. But I bring this case to your attention and your consideration for this reason. It, the, this competitor, or the patent holder, found itself in a, in a situation, after successfully trying the case and having a verdict returned of infringement and damages, and getting the injunction, this National Instruments patent holder found itself in a situation very similar to a patent holder that did not have an injunction entered and the question is, well how did that happen? Well, this is how it happened. So after the verdict, the defendant, MathWorks, attempted to design around the patent. National Instruments, the patent holder, believe that the design around still infringed and moved the court for contempt proceedings. There was a contempt proceeding and the court found that the question of infringement of this attempted design around could not be decided in a contempt proceeding and ordered a full evidentiary trial, so the litigants basically found themselves back, short of a Markman, Markman proceeding,

back with a full evidentiary trial on infringement in spite of the fact that they were successful in obtaining the injunction, so I raise that scenario for your consideration that there's, the practicalities of eBay, you know, are less significant in some particular situations.

OK, so John raised a very good point in his comments or remarks on what are, what are, quote, patent trolls, unquote? His, the question is, what is relevant here? The two characteristics he identified, I agree with, and that is that the patent holder did not, acquired the patent, rather, acquired the patent for assertion and litigation or licensing efforts and they don't make, use or sell anything. Those are two significant characteristics that I find have repercussions in litigation, which is what I do. When you're facing a litigant with those type of characteristics, obviously some of the normal vulnerabilities of a patent holder don't apply. For example, if they don't make, use or sell anything, you're not going to have an opportunity to assert patents you hold against them in a counterclaims and the attempt to get a cross licensing with a marking defense. If they don't make, use or sell anything, there's nothing to mark. So what are some potential vulnerabilities that would apply to a patent holder with these characteristics? And I've named off, I guess, six here. First is the chain of title and it's self-evident. You can't assert rights to a patent that you don't have, but I raise this for your consideration because, when you have a litigant who has acquired a patent, often-times you'll find that the rights to that patent have changed hands a number of times and so, drill down on each link in the chain of title to make sure that all the Is were dotted and Ts were crossed. You may find a unique opportunity to exploit in litigation if some rights were passed other than in, by virtue of a simple assignment, which is, which is pretty simple to execute, but maybe the rights to a particular patent were passed in a merger or an acquisition, or something like that, where the rights passed by operation of law as opposed

to the execution of a document. This may be a good opportunity or a good area to scrutinize when facing a patent holder with these characteristics.

The second is inventor access. When you're facing a litigant with, who has acquired a patent, often times the inventor's rights, either in the patent directly or in, or interests in the company that owns the patents have been alienated and you may find that they've been alienated in a way that offers or gives the inventors no incentive to support the patent holder's assertion of the patent or their assertions of infringement, and worse yet, depending on your, which side of the docket you appear on, you may find that the inventor's rights have been alienated in a way that create a disincentive to support the allegations of infringement. I'm aware of cases where an alleged infringer has found that, has created a relationship with inventors, which were alienated from the patent rights, and I'm aware of a situation where the patent holder was not able to talk to the inventor because the inventors retained counsel to represent them in their depositions and so the patent asserter was finding out real-time at the deposition what the inventors had to say about the patent, the prosecution of the patent and the patent holder's claims of infringement. Not, depending on which side of the docket you're on, not a particularly optimal situation if you're the patent holder.

The next is a Rule 11 analysis. I have been told by folks wiser than me that there are, there's two things or two ways to increase your return on investment. One is to increase your return or two is to decrease your investment. And if you're facing a litigant who has invested in a patent hoping to create some return through either licensing or litigation activities, they may have attempted to increase their investment by de, increase their return,

rather, by decreasing their investment in perhaps ill-advised ways. For example, skimmed on the Rule 11 analysis, so that is one area that may be, you know, fruitful to scrutinize.

The next two points I'd like to deal with together, and that basically is looking at any prior comments or valuations of the patent. Again, when you have a litigation opponent who has acquired the patent, they may have done so – in acquiring it, they may have engaged in a valuation of a business that owns the patent. I've been told by venture capitalists that companies, for one reason or another, have habit of decreasing the value, the reported value of their IP, and if that's been done sort of up the chain of title, you may be able to find valuations done in a, in a purchase of that patent or a negotiation where the patent holder has made statements about the value of the patent and you may be able to get it in admissible format and get it in front of the jury.

And then the last, I know I'm running over my time here, but the last point that I'd like to make is regarding reexamination considerations. As a, as a defendant in a patent infringement suit, one of the things that you may consider is a reexamination of the patent, because if the patent is held invalid then, you know, obviously, that's real good. The, there are two basic types of reexaminations. As folks no, the ex partes and inter partes. I want to address the inter partes examination briefly.

In 1999, congress enacted the optional inter partes reexamination procedure act. In hopes to, according to congress, to address the voluminous law suits in federal district courts, and they hoped to address that issue by providing a reexamination procedure for a third party to present a case of invalidity regarding a patent for the PTO during the examination stage of the proceeding. Well, here we are in 19, in 19, in 2006, some five and a half or six years

later and some of the dust has settled around the 1999 act, and the conventional wisdom seems to be that the inter partes reexamination act is not a particularly attractive avenue to present your case of invalidity, for three reasons. Although it is, the benefits of it is, are that it appears to be less expensive and it's quicker, which are not insignificant, there are some disadvantages. One is that you have, if you throw a patent back into reexamination with the PTO, conventional wisdom is you don't have any control over who the examiner is that's going to handle your case's invalidity and you have very little likelihood of even identifying who that person is, and so that means you have little opportunity to know what their background or their education is or what their examination tendencies are, so it's hard to sort of handicap your potential success rate in the reexamination procedures. The second thing is that the folks at the PTO are fine, tireless workers, as we all know, but we also know that they are very busy, and so that's another dynamic you want to consider when evaluating whether to pursue a reexamination. The flip-side of the coin is if you choose to present your case in district court, you have an ability to identify likely who the judge is going to be and, to the extent that you can identify what your potential venues are, you'll also have a track record from the jury pool, what sort of decisions have come out of that venue, so those are advantages to pursuing the district court case for invalidity.

Another disadvantage for reexamination is that reexamination requester's challenge to a patent is limited to prior art patents and publications, which means if you have other challenges to the validity of patent, like enablement or written description, prior use or on-sale bar, those types of challenges are not available in reexamination process, so that's a disadvantage to consider. And the third disadvantage, and potentially most significant, would be the estoppel effect. A reexamination requester is estopped from later challenging in district court a fact determined by the reexamination, so give the lack of litigation

mechanisms like discovery and cross examination available in the district court, that coupled with the inability to choose or likely even identify who the patent examiner is going to be, those have, at least it's my sense, pushed the conventional wisdom to presenting cases of invalidity in district court as opposed to the PTO. But to finish this topic, there are some normal vulnerabilities that don't apply to patent holders with these two characteristics. One, they acquired patents, and two, they don't make, use or sell anything, but some of the normal vulnerabilities may be heightened, if you will, because of those two characteristics.

And with that, let me turn it to John to address venue considerations.

John DeGroot: Thank you, Robert. It is, I have, I have, we have all heard the saying that information is power, and I think the next couple slides are going to give everybody some fantastic information about patent venues. Some of the information is going to be newly revealed for the first time on this webcast. I, this is not a talk about how to capture inappropriate venue, nor is it, frankly, a talk about how to, how to, how to, how to select venue if you're a defendant, because as we know, the defendant generally does not to select a venue. But what I do want to do is, what I do want is for people to be able to have knowledge about the venue in which they find themselves so that they can make their strategic choices as they fight these independent asserters or patent trolls or non-practicing entities, as (Marilyn) has called them.

There are, there are some very active venues out there, some of them more recently active than others. I think most people know about the eastern district of Virginia and the eastern district of Texas as being very active venues and, but what has not been done fairly recently, is people have not, have not gathered the data as to the results of patent cases in each one of

those, in each one of those venues. What I want to present first is, on this next, on this next slide and, hang on – Robert, I’m trying to advance the slide. Can you do that for me? OK, good.

Operator: The slide has been advanced.

John DeGroot: There we go. Got you, for whatever reason, my mouse is not working, but that’s why we have backups.

But this first, this first slide is venue statistics from 1995 to 1999, and this was information gathered by Kimberly Moore for an article that was published that’s sited at the bottom here, and what this does is this takes 10 very popular venues during that time per, frame and analyzes effectively who won and who didn’t and how they, how they got there. The top line is the number of patent cases, and then if you go a little bit further down, you see the percentage of patentee wins, and you can see that in some cases there are more than half of the, half of the cases are won by the patentee, for example, Minnesota, 67 percent, all the way on far right. Whereas Massachusetts, right there in the middle, only 30 percent of patentees win, and within that box, there are breakdowns as to whether the, whether validity of the patent was found to exist, whether the patent was seen to be enforceable in this context or whether it was seen to be enforceable, whether there was infringement and then, obviously, at the very bottom, whether the infringement was found to be, to be willful. And as a summary, the very bottom shows the percentage of victories by the alleged infringers. So if anybody in this call is representing an alleged infringer, as I, as I have certainly represented in the past, this would be very valuable data except of course that it’s slightly dated.

So if we can move to the next slide, we'll show the more recent data that has just been, that has just been pulled together by McKool Smith and you will find eight more, eight venues that are more active now and we'll walk, we can walk through the data as they relate to each one of these venues. New Jersey, northern district of California, eastern district of Texas, eastern district of Virginia, central district of California, Delaware, northern district of Illinois or southern district of New York. Now obviously, past performance doesn't guaranty future results, as we hear on TV commercials, but I think we can look through here and we can see some trends, both on the, both on who more often prevails than others here and also how often injunctions have been awarded. I give everybody a little bit of an asterisk on the injunction issue there, and that is that the eBay case may impact that statistic on a, on a going forward, on a going forward basis. And so depending on one's perspective, they can, if found in one of these districts, they can determine what their, how comfortable their surroundings might be, given the, given the allegations that are made, and I certainly appreciate your firm, Robert, for pulling this together.

With that, I then, I now turn it over to Robert to talk about declaratory judgment actions and what to consider in that context.

Robert Manley: Thanks, John. If you are representing a defendant in one of these type of cases, obviously one of the things that you're going to want to consider, if you haven't been sued already, is what are the, what are the pros and cons or the benefits and disadvantages of a declaratory judgment action? And for this component of the discussion, I want to, let me set forth a hypothetical scenario, which is not as hypothetical as potentially many of us would like it to be, but here's the scenario. You make a widget; your company makes a widget.

Your customers incorporate your widgets as a component part in their products. You have an obligation to indemnify your customer against allegations of infringement based on your widget, and an independent asserter or patent holder invites your customers to license, based, license or patents based in part, at least, on your widget. So the question is, you know, to quote, what do we do? And to quote Laurel and Hardy, it's the, you know, "Well, this is another fine mess that we've got ourselves into." OK, so what do you do? No litigation's been filed. Obviously one countermeasure you want to strongly consider are declaratory judgment actions in hopes that by filing one action, you'll be able to defeat the claim of infringement for yourself and your customers, and hopefully defeat the validity of the patent as well.

Here are, when doing that analysis, there are several considerations. Here are but five that I raise for your consideration. The first is you have to have declaratory judgment action jurisdiction, and these are the reasonable apprehension cases. The federal circuit has set forth a two-part analysis to determine whether DJ jurisdiction exists, A, reasonable apprehension that the declaratory judgment action plaintiff will face a patent infringement suit if it commences or continues the activity at issue, and B, present activity by the declaratory judgment plaintiff could constitute infringement. And then I throw in a third to the mix that's relevant to our hypothetical scenario where you were making the widget incorporated in your customer's products, and that is that an indemnity obligation. So the, remember in our hypothetical, your customers are the ones who are being approached and invited to license a patent.

So with respect to the reasonable apprehension cases, having done the research recently, the question is, what do these elements mean, particularly A and B, reasonable apprehension and

could constitute infringement? Well the cases are, a nice way to put it is, very factually intensive and sort of a more colloquial way to put it is, all over the boards or all over the maps. The general accepted rule is that a license, an offer to license by itself does not give rise to DJ jurisdiction. The significance of making sure that you run the traps on, whether you have jurisdiction or not, is because you don't want to haul off and file a DJ action to have it dismissed out from under you and potentially refiled somewhere else at a later date. Now having said that, I also am aware of decisions where a patent holder has said, no, no, no, no, there's no DJ jurisdiction because there's no reasonable apprehension suit and then did turn around and file suit somewhere else shortly after the declaratory judgment action was dismissed, and in all of the cases that I've seen where that scenario took place, that did not escape the court's attention and the court took it into consideration.

The second, I think, significant consideration when you're doing the DJ analysis is where you're going to file, where can you file and where do you want to file? You are the plaintiff, obviously, but you're still the alleged or accused infringer and materials that John went over, I think, are important to that analysis.

The third and the fourth point, let me deal with together, and that's, OK, we've got DJ jurisdiction; we know where we're going to file. What are the contours of the, of the lawsuit we're going to file? The first question that needs to be answered is, what patents are we talking about? And it seems, on its face, a pretty simple inquiry, but when you're dealing with an entity that acquires patents, it may not be as simple as identifying what patents your customers have been invited to license. You know, the inquiry goes much deeper than that. What other patents do they have in their portfolio, and you know, as a DJ plaintiff, I would not want to take aim at specific patents, go to the effort of getting a, successfully getting

declaratory judgment only find out after the fact that the patent holder acquired or had other patents. And that's issue number one, what patent?

Issue number two, what products? And again, on its face, it seems to be pretty straightforward, but let me raise these considerations. What the, when you've identified what the patents are, what do they cover? What do the claims read on? Do they read on your widget? Do they read on your customer's use of your widget? Do they read on your widget as it's incorporated in your customer's product? Again, I would, as a DJ plaintiff, I would hate to take aim at, get the, get the right patents and burn the calories to get a declaratory judgment only to find out that I have inoculated, if you will, some of the products that are relevant but I didn't get all of them. And so after litigation, then, I get a knock on the door by the patent holder saying, well that's, this has been really fun. I still have a, you know, group of products that I can assert these patents over.

And that leads to the next question, was, what is the potential impact on your customers? Do, if the claims read on anything other than the use, than your widget itself, one of the things that you need to consider is, are there, do I need to bring my customer's products into my DJ action so that I can hopefully get a declaratory judgment for products themselves, or the product's use of my widget does not infringe and then, you know, what evidence am I, am I going to need? How do I get that evidence and prove up form with my customers? What are, what are the, what sort of problems am I raising for them from a business standpoint? And it becomes, it becomes quite an analysis.

Another issue is, and this is, this point is why, at least I've seen a number of times, patent holders go after customers and not the manufacturer of the component part, and that's if

they're able, if the patent holders are able to establish infringement by the customers, often times the royalty base to which the royalty rate applies is going to be greater, because the customer's product sells at a higher rate than the component part widget that the manufacturer makes. One scenario that comes to mind is the Lemelson case against the entire industry over the bar code reading and machine vision patents. We represented customers of the, of the Symbol, Cognex products and that's exactly what the strategy that the Lemelson Foundation pursued, so let's take a step back then, if you were the manufacturer of a widget, you know that the patent holder is interested in getting the largest royalty base applicable, so if you don't bring your customer's products in for one reason or another, that may or may not stop the patent holder from joining your customers in, whether you like it or not, or suing them in another, in another venue.

So the patent holder countermeasures, you know, declaratory judgments action, we've already touched on one. Actually, we've already touched on two. One is lack of dec. action jurisdiction so you want to do your homework and stick the landing on jurisdiction before you file the case. The other is potential joinder of your customers in. If not, simply getting evidence from your customers regarding their larger royalty base in order to hopefully increase the damages awarded. That point is spoken from the viewpoint of the patent holder. So these aren't, obviously these aren't all, but they are significant considerations to bear in mind when you're doing the declaratory judgment action analysis.

With that, let me turn it over to (Marilyn), who has some remarks regarding the current activity in the legislature.

(Marilyn Nguyen): Thanks, Robert. So there are many that believe that the patent system today

has evolved in a way to what the patent system was intended to be, which was to, to quote the statute, to promote the progress of science and useful arts, or what I usually call is, you know, the purpose was to promote innovation. So there are many factors that I think have contributed to the current state of our patent system. First is what many consider to be a crisis in the PTO, which Robert alluded to. They're facing a backlog of over 400,000 applications. There's a growing application tendency. I think the average now is about two to three years for an average patent application. It's projected to be four years by 2008. And in certain industries, for instance, like Cisco's where it involves cutting edge electronics and also, actually, other industries like bio-tech, it's actually closer to four or five years from filing to issuance today. Part of this can be, I guess, the cause of part of this may be the diversion of fees, which is that over \$650 million worth of fees that are paid to the patent office get diverted to resources outside the patent office, so there's an inability of the patent office to adequately address the workload. So what this results in is overworked, overloaded patent examiners who have a designated number of hours to devote per patent application and it results in a widespread concern over the quality of patents that are now issuing from the patent office and have been issuing.

There's also a growing concern over the abusive use of the court system by certain patent holders, which has resulted in, you know, congested courts, I think we've all seen the skyrocketing costs of patent litigation. It's resulted in a situation where it's impossible to tell, absent litigation, whether a patent is valid and enforceable or even how the claim terms might be construed, and it's difficult to defend a patent suit without incurring large business risks today. It also detracts and, beyond being expensive, it also detracts from money that would be spent on R&D and it also distracts companies from focusing on more productive

activities, I think, due to the inevitable time-consuming depositions, you know, requests, meetings, et cetera that involve many of the key engineers who really should, ideally, be spending time on new products and innovating. So some of these factors and some of the others mentioned by Robert and John today, I do think demonstrate in many ways how our system has evolved to give, since the focus of this is trolls and non-practicing entities, the unfair leverage over product companies, which is really contrary to what the patent system was intended to be. And if there's any question about whether there is an unfair playing field right now, I think the proof is that there is a growing number of cases brought by non-practicing entities or trolls, and there are entire businesses that revolve around acquisition and enforcement of patents. Personally, so one of the things that I run at Cisco is IP patent litigation, and in fact there is really not a single case that we face today that is brought by a competitor or a product company, and this was not the case 10 years ago. So I personally, Cisco has been experiencing this.

So as you might imagine, though, there's a range of interest relating to the issue of patent reform and whether there's need for patent reform at all. In fact, there might even be a range of interest of the speakers today. So what, there's sort of a few different schools in terms of approaches to patent reform. There are those who don't believe that any reform is necessary at all, and those are generally the small inventors or the licensing entities or trolls. And there's also those who are focused on harmonization and patent quality, and that can be generally attributed to AIPLA or IPO. There's (Bio) and (Pharma), who, because their business model is different than some of the rest of us, they want to ensure that reform does not do anything that affects their rights, right? Because they have sometimes a single patent that protects a billion dollar's worth of product sales. And then there's sort the, and then there's also the litigation reform camp, which includes BSA, the tech industry, you know,

media companies, consumer product companies, some oil and gas companies, and this is really focused on reforming some of the litigation practices that are happening right now. And what's important to note about those that are involved in the litigation reform aspect is, most of the companies that are actually involved in that reform effort file thousands and thousands of patents a year and actually do believe that we need to have a patent, a strong patent system, but is trying to, the focus is really on trying to return the system to a more balanced and transparent system that fosters innovation and encourages utilization of others' inventions, but on reasonable terms, as opposed to an unbalanced playing field where plaintiffs are holding out for very large victories or awards, which they have in the past.

So on some of the slides, you'll see the, or on the next few slides actually, you'll see some of the differences between the house bill of 2005 and the recent senate bill of 2006. These are just two bills that are out right now, there's actually quite a few versions that have been floating around. Both of these are the bipartisan bills. There's also a Smith Draft, Lamar Smith out of Texas, which has been floating around, and he holds a lot of sway because he, it's, there's talk that he may be the chair of the judiciary committee. There's also a draft that comes, you know, ALP, AIPLA/(Pharma), and there's also a (Berman/Bauscher) draft, which you'll also, bill actually, that you may see. But these just, these two bills just highlight some of the issues that are attempting to be addressed and I won't go through each one of these issues today for lack of time, but if you have any questions when we take some questions, I'm happy to answer some of them.

Now, because our time is almost up, I'm going to turn it over to (Mel) who will open it up for any questions and we'll take it from there.

(Mel Merzon): Thank you. The first question we would ask is, if you see a chance for settling with a troller, how best would you approach that settlement? What steps would you take? How would you see your way through it? Those kinds of questions.

John DeGroot: (Mel), it's John DeGroot back in, I can, I can take it, and I think that goes back to our slot earlier on what's relevant here about trolls or independent asserters, and that is the two things that define them here, being they provide no products or services other than potentially patent licenses and they, but they do assert patent rights and likely or not, the – likely not the inventor, but that, sometimes they are, sometimes they, sometimes they aren't. But they, so what is it that they care about and what is it that they don't care about? They don't care about, they don't have their own products or services to protect, so they don't have to worry about counter claims, as Robert Manley told us a little bit, a little bit earlier. They don't have to worry about competitive pressures and generally they don't have the emotion of the inventory involved directly in the, at least at the outset of the, of the lawsuit. What do they care about? They care about their own patents and they care about money, return on investment, particularly if they acquired the, acquired the patent rights through licensure and they're looking for, as we discussed earlier, a return on their investment. So how do you leverage those issues? One is that if they're, if they're concerned about their own patents, then obviously they have to maintain the validity of their patents through any dispute with you and others, and so there is a, there is, at least in my own past experience, there is, there is some potential room for discussion there, because that is a concern for one who holds the patent rights. And two, is they're more interested in return on investment, and as we discussed earlier, it is, ROI can be achieved two different ways. One is to enhance the return, i.e. pay more money in the lawsuit, or two is simply to reduce the investment by the, by the patent holder in the lawsuit, which would mean settling earlier if it, if it made

sense. And so my answer would be to focus on the things that make patent, quote, unquote, trolls or independent asserters unique and leverage those characteristics to get a resolution.

Do we have other questions, (Mel)?

(Mel Merzon): Not from this end. We have a couple questions from our listeners if one of you three would like to take them on.

Robert Manley: Yes, (Mel), this is Robert. I've got a, looks like there's a question that's being raised about – well let's see, it just got bumped out of my box – about the extent of the estoppel effect during the reexamination process, and my comment earlier, let me, let me temper that by, or I guess put a finer point on that by explaining my understanding, and of course being a litigator, I know that there's always wiggle room in every, in every law, but a requester for reexamination is estopped from later asserting in a civil action or in a subsequent inter partes reexamination the invalidity of any claim finally determined to be valid and patentable on the grounds that the third party requester raised, or could have raised, in the inter partes reexamination, and I find my basis for that in 35 USC 315, open (paren C). From a practical standpoint, when, where the rubber meets the road is in the trial that occurs potentially after reexamination and I can tell you that an argument that this particular, to the extent it ever gets in front of a jury, an argument that this particular litigant took a shot with the PTO at invalidating this patent based on this exact same prior art, and the PTO considered it and found the patent valid. It resonates. So that's a litigation consideration, frankly, irrespective of the, of the potential estoppel effect of reexamination proceeding. And so I think that when you're considering, when a litigant is considering, well what do I do? Do I throw a patent back into, back into reexamination,

one of the considerations is, if I lose, you know, what are the legal consequences and what are the practical consequences if I then find myself in a trial before a judge and jury, so I raise that point as a consideration and I think, frankly, that's one of the reasons that, given the other disadvantages to the reexamination process, litigants are choosing, by and large, to present their invalidity cases in district court as opposed to reexaminations, at least that's my sense. (Mel)?

(Mel Merzon): Are there any further questions?

(Marilyn Nguyen): I'll take this; we've got another question and let me read it. It says, in light of the prevalence of these trolls, are there any thoughts of amending U.S. law, patent law to include working requirements, which I think requirements to actually have the entity that's enforcing the patent to be practicing the invention. And the answer to that is no, not expressly that way, and I don't think that would be feasible or passed politically because that would be deemed to be very, I think prejudicial to the small inventor. But there are specific reforms that are being addressed in the current bills that would help, like I said, level the playing field a little bit so that there would, that we would create a more balanced system, and this includes a (post-grant) opposition period, and what this is, is the current versions of the, well the senate bill as well as the house bill has a period, it's called a second window, so after, there's a period for opposing the patent after the patent issues, but as many of us know it's not very feasible to monitor the thousands and thousands of patents that issue daily, especially because in fact, most of the patents I've been sued on, I don't even see how they're applicable to our products and so I wouldn't know to oppose it, even if I were to be able to read the thousands and thousands of patents. So what is being proposed is a second window, which is triggered by a dispute or litigation so that if I get a piece, if I get a lawsuit

filed against me then there's a window that's triggered during which I can oppose the patent and what's being considered now is being able to raise almost, basically all the defenses you could have raised in court before an administrative law judge, and so would not be an examiner but actually a three judge panel, so there's lots of details on that.

There's also a limitation on willfulness that's being proposed, and also continuation applications. There's a couple of provisions that address giving the PTO additional power to, rule-making authority to allow it to limit continuations, and I'm sure most of, many of you are aware of the proposed change that the PTO is wanting to make regarding limitations on continuation. There's also, with the eBay case, you know we're, product companies I think are in a better position against licensing entities regarding injunctions and the, to avoid a rim type situation. There's also, you know, there's also several others that I think will help balance the system a little bit more to create more realistic expectations and hopefully cut down on some of these troll lawsuits.

John DeGroot: This is John DeGroot by the way, I'll toss in. I'm seeing other questions sort of roll by and obviously we're running low on time, but to the extent that anybody has an additional question, if you e-mail the panelists, our e-mails are at the front of the presentation. We'll be happy to circle back with you.

(Mel Merzon): Thank you, John. This is (Mel Merzon) once again; to bring to a close today's ACC presentation, brought to you by the Litigation Committee under the sponsorship of McKool Smith. We hope that you have gained much practical and useful information from our presenters, John DeGroot, Robert Manley and (Marilyn Nguyen), whom we thank for bringing this important and timely subject. May I thank all of you for watching and listening

and for joining us on this webcast. Please remember to complete the evaluation at the left

side of your screen. This helps us plan our future webcasts. And a final reminder to

Litigation Committee members that at the annual ACC meeting, on Tuesday, October the

24th at 12:30, the Litigation Committee will meet. This concludes our presentation.

Thank you.

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