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IP Litigation in the 21st Century

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Binal J. Patel******

¶1 MR. GREENFIELD: Hi, everyone. I just wanted to welcome everyone to our symposium. I'm David Greenfield. I'm managing editor of the Northwestern Journal of Technology and Intellectual Property. Ben Hoffart, our editor in chief, actually got food poisoning last night and is not doing so well. He's hoping to make it later in the day, but he's not feeling so great.

¶2 I want to thank everyone for coming out, especially our sponsors, MBHB, Foley, and the Intellectual Property Law Society, without whom none of this would possible.

¶3 Our journal is not very old, but it's grown significantly in the last few years. We've been cited by Congress. We have been cited by the Federal Circuit in the last year. And, you know, it's because of the students and because of sponsors and presenters like we have here today that we're growing so quickly. I just wanted to say thank you to everyone.

¶4 Now I'm going to introduce Brandon Scruggs, without whom this would not be possible. He's put a lot of energy into what is going to be a fantastic day. Thanks.

¶5 MR. SCRUGGS: Well, welcome everybody. I'm Brandon Scruggs. I'm the development editor this year at the Northwestern Journal of Technology and Intellectual Property. On behalf of the journal, welcome to Northwestern Law School. We hope you have a great day.

¶6 Our first panel is entitled IP Litigation in the 21st Century. But before I get into that, just as a housekeeping note, if there is any attorney here that is here for CLE credits, make sure you get these forms. And if you could get them to me by the end of the day with payment, that would be great. If you can't get payment to me by the end of the day, let me know and I'll give you my business card and you'll be able to mail them to me and we'll work it like that. So if anybody needs CLE credits, make sure you get in touch with me.

¶7 So our first panel today is entitled IP Litigation in the 21st Century. We have a great bunch of panelists.

¶8 To start off we've got Michael Baniak over on my far right, your far left. He's a partner over at MBHB, McDonnell, Boehnen, Hulbert & Berghoff. He's also an adjunct professor here at Northwestern University School of Law.

¶9 He spends probably most of his time litigating on behalf U.S. and international clients in courts and tribunals all across the U.S. He's been trial counsel in over 150

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patent, trademark, trade secret and copyright suits. He has provided a lot of counseling on protecting and exploiting IP, including prosecution of patent, trademark and copyright applications, and negotiations of licenses and other technology-transfer agreements.

¶10 He's also a regular lecturer for state and national legal organizations on copyright, trademark, trade secret and patent law. He is an annual speaker for the Licensing Executives Society at its Technology Transfer Seminar, and he has chaired this multi-day fact-intensive seminar for many years. He's been an expert witness in the field of U.S. patent law and prosecution and trade secret law.

¶11 He got his B.S. in physics from the University of Dayton, his J.D. from Indiana University. He's a member of the state bar in Illinois and Ohio and has been admitted to the U.S. District Court for the Northern District of Illinois, the United States Court of Appeals for the Federal Circuit, United States District Court for the Southern District of Ohio, and the U.S. Patent and Trademark Office.

¶12 Next, we have Dan Boehnen, who's a partner in MBHB. He's actually one of the named partners at MBHB. So it's a pleasure to have him here. MBHB, as you probably know, is our premiere sponsor and without them we couldn't have done this.

¶13 Next, we have Jeanne Gills. She's from Foley & Lardner. Foley & Lardner is our associate sponsor this year. She's a partner in the Chicago office.

¶14 And then next we have Binal Patel, who's a partner over at Banner & Witcoff. He's also a Northwestern University alum who we're very proud to have back.

¶15 So without further ado, I will leave it to the panelists.

¶16 MR. BOEHNEN: I was talking with our court reporter over here and everybody else nominated me to go first. So that's one of the lessons for all of business events, whether it be law or otherwise, if you weren't there at the time, you're probably going to get nominated for something.

¶17 I know from breakfast the group of us all met ahead of time and we're all very pleased to be here at Northwestern Law School, of course, a premiere educational opportunity for all of you.

¶18 Mike Baniak obviously spent more work on his introduction than the rest of us did on ours, but I assure you that every member of your panel is equally -- well, maybe not equally but all eminent in their field.

¶19 MR. BANIAK: I expect that of a former student.

¶20 (Laughter.)

¶21 MR. BOEHNEN: Mike is one of those guys that just loves trying cases. I think he would be every bit as happy as a public defender as he is as a patent attorney, although the patent attorney's pay is a little bit better than the public defender.

¶22 We'll we're going to be talking today about, you know, IP law in the 21st Century. Some of the people have got particular themes.

¶23 What I wanted to do is just kind of bring you -- especially the students -- up to date on what I see as some of the things that have changed so much since the time that I began practicing law.

¶24 Jim Dabney and I, who was also at breakfast and is going to be your keynote speaker, we were talking this morning at breakfast about some of the many changes and many of which he'll be touching upon in a more in-depth manner later on.

¶25 A lot of things have changed. There is a couple of things about patent law -- let me just start first here with this idea about patent rules in patent cases. There's a couple of

things about patent litigation that tend to be different from general litigation. There are things that over the years some courts have gotten a handle of the law better than others.

¶26 In particular the Northern District of California, you know, about 10, 12, 13 years ago came up with some particular rules that they apply in patent law cases. Some other districts have now begun incorporating some of those rules into their practice. They are by no means widespread, although virtually all judges in all federal district courts across the country are familiar with them and, you know, pay attention to them in different ways.

¶27 Two of the issues that you find are very different in patent litigation. Patent litigators have struggled with them over the years. You know, the whole infringement validity contention thing, identifying which claims are asserted, getting the claim charts as to how the patentee reads the claims on the accused products.

¶28 And then the reverse of that is the validity contention issues, you know, why the defendant, why the accused infringer thinks those claims are invalid and what is the prior art that they are asserting and how did they pull the prior art together.

¶29 Those have been hotly contested issues in terms of just in the discovery process, how you get that information. Inevitably, near the outset of a case, you know, you exchange interrogatories and the accused infringer says, you know, which claims are you asserting against me and how do you read them on me and the patentee does the same thing on validity. Then in the responses both sides say, oh, these are contention interrogatories. It's too early. You're going to get these later on and there may or may not be fights on that. That kind of dispute has been going on for many, many years.

¶30 Well, about 10 or 12 years ago, the Northern District of California implemented some rules that are specific to patent cases and they say that -- I forget the exact timeline -- something like 45 days after issue is joined, the patentee will set forth its contentions on which claims will be asserted and essentially the claim charts on how they are reading. And then 60 days after that, the defendant will identify the prior art that they contend renders the patent invalid and explains how the claims are covered by that prior art.

¶31 That's one aspect of the special patent rules in California. Those aspects have not been widely adopted, although more and more district courts are adopting them. The Eastern District of Texas has and several other districts have.

¶32 Then there is a second aspect of the patent rules which really goes mostly to claim construction. Obviously, you know, Markman came down in the early '90s, and I think you're all familiar with that background.

¶33 For a long time there was -- and in many jurisdictions and cases it's still there -- great ambiguity about when are we going to do this. You know, when do you do Markman? Do you do it near the outset of the case so that the parties engage in discovery and they're going to know what the issue is?

¶34 Do you wait and do it just before the case goes to the jury because then the record will be fully developed?

¶35 I think most experienced litigators now as a rule have a preference that the claim construction would be done after the close of fact discovery but prior to the time that you do your expert reports.

¶36 You know, you don't really need claim construction too much during the fact discovery period, but you definitely want to have claim interpretation before you have to do your expert report. Otherwise, you know, you've got these two, the plaintiff and

defendant. They are arguing over their different aspects of claim interpretation. And if you have to do your expert reports first, well, you know, then I'm going to say, you know, my expert report is going to be premised upon my interpretation of the claims and likewise for the other guy.

¶37 Well, after the Judge has ruled on the claim interpretation, you know, one of you is going to change your position. You can do that. The expert can come in and say, you know, well, now I want to file a supplemental report and in view of the Court's claim construction, you know, here's how I would apply everything. But it's a little awkward to do that.

¶38 So I think most counsel now prefer that the claim construction be rendered prior to the expert report. It doesn't always have to be that way. Different cases have different issues. Different patents have different issues.

¶39 Sometimes, you know, very near the outset exactly what the issues are going to be and the claim interpretation -- sometimes you can tell that the whole issue of validity and infringement is going to turn on one or two terms. If you can get those resolved near the outset, the parties may be able to resolve it. So every case has its own unique things, but one of the things that the patent rules in California set up was that claim interpretation -- there was a whole process around it.

¶40 In general, you knew when it was going to be done. It generally tended to be after fact discovery and before expert witness. It set up a procedure by which, you know, the parties will -- initially, each party will identify the specific terms in the claim language that it feels are subject require claim interpretation and you exchange those lists of terms.

¶41 Then a couple of weeks later, you each exchange what you propose as the definition for those disputed terms. Then a couple of weeks after that, you each file an open round of briefs arguing why your claim interpretation is correct, why the other guy's isn't. Then a month or a few weeks after that, a cross round of briefs.

¶42 That procedure, I think, is something from the rules of California that is being paid more and more attention in various jurisdictions around the country. Inevitably, I think one side or the other -- you know, at the outset of a case you have a scheduling conference with the judge and one side or the other will usually bring one or more aspects of the California rules to the attention of the Court.

¶43 Now, you know, if you're in a court like Delaware, the judges there are already very familiar with patent litigation and very familiar with these processes.

¶44 On the other hand, if you're in Wyoming or the Western District of Michigan even, you're going to be dealing with a judge that doesn't have that much familiarity. In situations like that being able to refer to the California rules is helpful and sometimes persuasive to the judge in setting up procedure.

¶45 So that's one aspect of patent litigation that I think has gained some traction here in the new millennium and will continue to do so. And I've already talked, then, about how that works in claim construction.

¶46 One of the next things I wanted to talk about was forum shopping. Mike and Jim and many others here will remember that when we started to practice, you know, forum shopping was rampant for all patentees looking to file a case. Indeed, even more so if you were a defendant and you knew you were going to be sued, you know, as an accused infringer, forum shopping was rampant.

¶47 But it was all based upon -- at that time, it was all based upon the regional circuit law. Appeals of -- district court cases went right up to the regional circuit and each regional circuit tended to have its own view of various issues and how they applied them.

¶48 The Eighth Circuit, which is in Minneapolis, you know, back by the end of 1980, the Eighth Circuit had not held a patent valid in like 20 years. So if you were in a patent dispute and you're the accused infringer, you are desperately trying to find declaratory judgment jurisdiction grounds and geographical jurisdiction grounds in order to file your case in Minneapolis. Because you know that if you do, the patentee is going to be willing to settle on relatively favorable terms because no patentee in their right mind wanted to go to trial in Minneapolis.

¶49 Cases in the Tenth Circuit, the Fifth Circuit were viewed as being relatively favorable to the patentee. So you've got the flip dynamics there that a patentee was going to try to find a way to file first in the Fifth Circuit and the Tenth Circuit.

¶50 The Seventh Circuit in Chicago actually was viewed as very neutral. That was great news for all of the patent professionals in Chicago because it was viewed as kind of fair and balanced for both sides, and, thus, you know, all and all, a good place to file. If you had to get jurisdiction somewhere, that was a fairly good place to be.

¶51 All of that was supposed to have changed with the Federal Circuit Court of Appeals because the whole driving purpose was that you were now going to have one Court of Appeals court that would be establishing uniform precedence on how to apply patent law that would apply it across the country.

¶52 So there would no longer be this kind of rampant forum shopping.

¶53 To a great degree, I think that's true.

¶54 I think that has happened. You certainly have much more uniformity of a geographic basis now than you did 30 years ago. But, you know, we live in a competitive world. Lawyers are very competitive, and we keep digging and digging and trying to find an edge. So we found new edges and those new edges become new bases for trying to do forum shopping.

¶55 In particular now with the kinds of modern databases that we have access to, we now have lots of information -- not what lawyers used to think about on a regional basis, the controlling law. Now we have databases that are on a district-by-district basis and indeed even judged by a judge within that district that tell us a lot about how that particular district, the Judges in that district are in relation to, you know, favorability to a patentee or favorability to transfer motions. Perceptions on the whole jury issues.

¶56 So there's still now a lot of forum shopping that goes on but it's on a very different ground. You know, that will become even more refined as time goes on.

¶57 You've got, for example, perceptions of juries -- you know, this chart goes from '95 to 2007. What it's showing here is just simply the number of cases that were tried by a bench. The bench is the dark blue versus jury trials.

¶58 You see that the number of jury trials really rose sharply up until the new millennium here in 2001 and 2002 and then it's been fairly stable since then.

¶59 So, you know, one of the evolving trends that we see here in the new millennium is a much higher percentage of jury trials than you had in years past. Although, it's now been fairly stable for the past five years.

¶60 Similarly, you know, you've got statistics available now from these modern databases that will talk about the overall success rate of a patentee. You can have an

overall success rate, which includes not only your success at trial but also your success on pretrial motions, summary judgment motions. It will parse out your overall success rate from just your trial rate and summary judgment rate.

¶61 I don't know if everybody -- can you read that from the back?

¶62 You know, the column that's on the left is an overall success rate. The column that's in the middle is the success rate at trial, and the column that's on the far right is a summary judgment success rate.

¶63 In this case, these statistics are listed from the top five districts of overall success.

¶64 The Middle District of Florida, you wouldn't have thought of that as a hot one but that actually was -- statistically it's the most favorable for patentees.

¶65 Texas, Eastern District -- and I'll get to that in a moment -- but that's long been viewed as very favorable for patentees.

¶66 California, Eastern District of Virginia, Wisconsin, relatively successful for patentees. I do want to credit Aron Levko and PricewaterhouseCoopers as the source of these statistics, but you can get them from several places.

¶67 I just want to show that this is an example of the way modern databases allow lawyers to get a great wealth of information that they can try to fine tune for their district.

¶68 Likewise, once you filed a particular district, you can now get databases that will give you an enormous range of information for your individual judge. You know, their whole history in relation to dealing with patent cases, what they've done in preliminary injunctions in patent cases, what they've done on summary judgment on patent cases, what they have done on Markman in patent cases, trial and otherwise.

¶69 So, you know, there is now still a fair amount of forum shopping that goes on, but it's driven by these much more precise tools of data management than what we had in the old days.

¶70 I talked a moment ago about the Eastern District of Texas. You know, you will still hear people talk a lot about how the Eastern District of Texas is a rocket docket that's very favorable to patentees. That view is actually a little outmoded statistically, although, you know, statistics -- perception always lags reality, so we'll have to see where it goes in the long run.

¶71 Certainly five, seven years ago the Eastern District of Texas was viewed as a rocket docket. But over the course of time, they've had so many large cases, whether they be class action cases or patent cases, which are almost always large, a file there that their time to trial now has pretty much come back to the national average.

¶72 They are now about -- time to trial is about three months faster than Delaware -- Delaware being kind of a benchmark for patent litigation.

¶73 So, actually, they're no longer a rocket docket. The rocket dockets are Eastern District of Virginia and the Western District of Wisconsin.

¶74 Likewise, the Eastern District of Texas is widely viewed as very favorable to patentees because up until about two years ago, the patentees had like an 88 percent win rate in the Eastern District of Texas. But ironically over the last two years, the defendants have won every case in the Eastern District of Texas up until about a month or two ago when Kenyon & Kenyon lost a very big case there.

¶75 Even that is a widely second guess as being a situation where Kenyon & Kenyon had not learned the lessons of the past. Those lessons being that if you're going to trial in the Eastern District of Texas -- and especially if you're in front of a jury -- but even if

you're in front of a judge, you've got to have your good old boy from Texas, local counsel, play a primary role in the case. Texans do not take well to Yankee outsiders coming in and telling them how to decide a case.

¶76 So in the case that Kenyon lost, they are widely criticized for having ignored that rule and having let their local counsel sit at the table for virtually the whole case.

¶77 But, nevertheless, the fact is the Eastern District of Texas over the last two years has not been at all favorable for patentees. We'll have to see what the future holds.

¶78 Okay. Next issue. You know, Section 112. When I started practice so many years ago, I remember one time when, you know, I came to work on a case and came to the senior counsel, the senior trial lawyer in the case and said, you know, I thought that this patent had a real problem with 112 and was told flatly, do not waste your time on Section 112. No court is going to pay any attention to validating the case under Section 112.

¶79 Those are highly technical issues that the judge is going to have full faith and credit in the patent examiner with. We're not going to waste our time with that.

¶80 Well, times have changed. Section 112 is now a very prime round for invalidating patents in the United States. In many ways, the U.S. is just kind of catching up with European systems and elsewhere. I think it's a result of -- my personal experience of it -- what I learned from it comes out of what happened with patents issued in the early '80s in the biotech world.

¶81 You had patents on break-through competent biotech drugs for insulin or human growth hormones. What would happen in those situations is the scientist would clone the gene. The patent attorney would draft a specification and then you would claim all aspects of, you know, everything related to this particular product and everything that could be done with the gene. It seemed perfectly appropriate at the time.

¶82 But as the technology developed further and further, we came to appreciate how much we don't know. We saw that just simply having a gene does not in any way, shape or form mean that you're going to be able to -- that you have enabled all aspects of practicing the technology. That gene is an essential part of it, but it doesn't enable everything that goes with it.

¶83 As a result, many of those patents that issued during the '80s of this break-through time period in the biotech world -- as lawyers, defense lawyers, began to learn more and more about what we don't know from the technology, what cloning this gene didn't enable us to break through, we can better articulate why the claims which cover a particular adaptation of the gene were not enabled. Why there wasn't an adequate written description.

¶84 That came from -- so it's applying those same old legal principles but in this new technology with the new understanding of the limits of the technology.

¶85 As a result, you know, that now has filtered up through the patent office and into the Court of Appeals. These grounds of enablement and written description, indefiniteness have all become a primary focus now of trying to tie together the claim language to the specification.

¶86 What exactly is it that's described in the specification? What is really enabled to a person of ordinary skill in the art? Does the claim language track that specification to an appropriate boundary level?

¶87 That has become a very prime issue here in the new millennium. In this respect really the U.S. is catching up with the European practice all along.

¶88 One prime example of that is genus claims. Genus versus species claims. If you're going to try to claim a genus, you have got to describe an adequate number of the species -- adequate meaning whatever that means for your particular case. It's got to be something that's representative of the entire genus.

¶89 That's going to be different if you're talking about different chemical drugs, different biotech drugs, different electronic technology. You've got genus versus species in electronics and mechanics and everything. In all of those instances, the Court and the Patent Office now in this new millennium are restricting patentees much more tightly than they did 10, 15 years ago, restricting you to the scope of your specification.

¶90 All right. Let's keep moving.

¶91 One thing I just wanted to mention was the whole Rambo litigation tactic. I think that Rambo litigation technique -- and I'm going to assume that you kind of know what I mean by this. It's fighting tooth and nail on every issue, regardless of how significant, regardless of how meaningful, regardless if there is economic merit or justification for it. It's just simply fighting to wear down your opponent.

¶92 I think those have reached their peak around the turn of the century. That's not to say that they don't still persist. To a very great degree, they do but judges are very sensitive to it now. Ten years ago, you know, they just wished a pox on both of your houses and didn't want to have anything to do with it. I think judges now are sensitive to it. It is really a cause of a breakdown of professionalism in our profession.

¶93 I think it leads to a lot of why the public -- what the public dislikes about lawyers. It certainly is, you know, what you see -- the depiction of lawyers on television. You know, the trick is finding out how to fight hard for your clients while at the same time maintaining professional decorum, professional respect for your opponent and trying to find reasonable accommodations.

¶94 I think the pendulum has swung towards that way. There's a long way to go and there's still many attorneys in many firms and they are known to people who practice that are still stuck in that overly aggressive past, but I do think that the tide is turning on that. Hopefully, it continues to.

¶95 And, then, last but not least, you know, what we see here in this new millennium is a relative decline in the percentage of cases that are going to trial. It's always been low in patent cases.

¶96 Historically, you would say that 96, 97 percent of patent cases tended to settle before the trial, you know, for a lot of good reasons.

¶97 But over the last -- I think over the last seven, eight years and especially the last two or three years, it's ratcheted down even more. I think the latest statistic has been 98 percent of cases settle before they go to trial and only 2 percent go to trial. There's a lot of reasons for that but clearly some of the big drivers are cost. Clients are concerned that the cost of patent litigation has just gotten out of control.

¶98 You know, the threat that come from that cost, the threat of increasing cost is only increasing as we get into this world of electronic discovery that other people are going to be talking about.

¶99 But you now have -- you know, whereas when I started, the cost and the complexity of patent litigation had already taken a quantum leap over what it was 10 or 20 years before that because of the advent of the Xerox machine.

¶100 You know, I mean, when I practiced -- when I started the Xerox machine was well established. So you had these multiple copies and people making copies. I used to ask the old-timers, what did you ever do before the Xerox machine.

¶101 You know, inevitably in one form or the other, the answer would come back that life was a lot simpler. There would only be a stack of papers like this in any given lawsuit, maybe a stack like that. That was all of the papers. You only had originals.

¶102 In order to make a copy, you would have to do like -- what was it called -- the old mimeograph procedure. Many of you probably never even seen mimeograph. It's this purple ink that you would roll over it. It was a very cumbersome process. So there weren't copies. There were only originals. You would go over to the lawyer on the other side and his office and he would bring out a stack of paper and you would go through them and make notes about what you thought was useful and you'd tell him to bring the originals to trial.

¶103 That was discovery.

¶104 Well, now all of a sudden, you know, when I started you got boxes and boxes and, you know, warehouses full of paper that everybody would go through. You know, you were still working in a paper world.

¶105 Now, of course, we're in an electronic world. The ease of replicating data and information has taken another quantum leap forward. Whereas before you would be talking about 100 boxes of paper. Now you're talking about a 100 gigabytes of paper. Each gigabyte is roughly, you know, two and a half file drawers or roughly ten boxes of paper. So 100 gigabytes is now 1,000 boxes of paper.

¶106 You know, there was a time period in the late '90s up until about, you know, the advent of the new rules maybe three or four years ago where lawyers kind of weren't comfortable with all of this electronic data. We really didn't know what to do with it. Clients didn't want us to have to deal with it. Everybody knew it was going to be a headache. So it was a don't-ask-don't-tell approach. You know, I won't ask for it if you don't ask for it. We won't talk about that. We'll just stick to the paper.

¶107 Now the Federal Rules say you have to talk about it at your opening scheduling conference in any case. Inevitably once you start talking about it, somebody is going to ask -- one side or the other is going to ask for it. Once they do, then both sides want it.

¶108 So, you know, now we're into this problem of greatly expanding cost of litigation, not to mention the fact that, you know, the issues get more complex. Damage awards have gotten higher. All of this has raised the sensitivity and the focus on the patent litigation impact it will have on business. That means the business is willing to invest more into it. Thus, the law firm puts more lawyers on it and every issue gets grounds to a very sharp edge. The cost gets higher and higher.

¶109 So that has now created a backlash of the pendulum swinging the other way of clients wanting to find ways out of this earlier, if possible.

¶110 There is, you know, several ways that they have done it. One is an increased emphasis on trying to find ways of settling a case and to evaluate a case early. You know, you will have more second opinions given. You will have more jury research given. You know, are we likely to win or lose this case.

¶111 You will have more attempts on ADR. You know, nowadays most courts now have a mandatory ADR process that at some stage -- and they will often leave it up to the

litigants to decide -- but at some stage they will require that the parties at least consider and talk about some kind of mandatory mediation.

¶112 I won't spend a lot of time but just so you're familiar with how mediation goes. You know, basically a mediator is a third-party, a neutral third-party who's going to come in and try to help the parties talk to each other to communicate in a way that they can't and to have them listen in a way that they won't individually.

¶113 Nothing the mediator does is binding on you. The mediator can't make you do anything. He or she will bring both sides into the room, give you a chance to talk to each other and then typically put you off in separate rooms and engage in shuttle diplomacy back and forth. They'll say, do you realize you've got this risk. I hear you saying this, but I've got to tell you, that that won't even fly. You have to worry about what's going to happen here and try to get both sides to be willing to make some sort of compromise.

¶114 Sometimes it works. Sometimes it doesn't. Definitely, it's one more thing that is going into the whole process. I think that is the end of my talk, so thank you very much.

¶115 (Applause.)

¶116 MR. BANIAK: As my students here know, I tend to roam around and I'll do that again today.

¶117 I'm going to talk about some of the macroeconomics. Dan just spoke about the cost of litigation. We're going to talk about the cost and I'm going to put it in the context of contingency litigation.

¶118 I've given you a caveat right out of the box. I have a physics degree in stats so I am used to structure. I'm used to formulas and I'm used to predictability. One of the only classes I ever withdrew from in undergrad was macroeconomics because it was way too squishy. It was just voodoo as far as I was concerned. There is a formula but reality doesn't really match. So with that caveat, I'm now going to talk about macroeconomics as it relates to the troll.

¶119 Now you've heard the phrase the troll. It's a pejorative phrase that is used to characterize not only the attorneys who represent contingent plaintiffs in patent litigation. Particularly in patent litigation the term troll has been coined as pejorative in the sense that it is people. People who have patents who actually don't do anything with the patent. They don't make anything. Therefore, by enforcing these patents, they are extracting a toll. The troll is the person underneath the bridge that comes up and extracts a toll to cross the bridge. That's kind of the genesis of the phraseology as we know it today but the reality is really quite different. I am a troll. That's me, you know, on kind of a bad morning. I represent a lot of contingency plaintiffs. These are individuals who, you know, frankly tried to license their patents, tried to get into the business.

¶120 I was just talking to somebody at breakfast this morning and here at the Northwestern Law School they have a program for medical innovation and actually formed a company and have some seed money to do that. Maybe you have got \$250,000 in which to start this company. Maybe you get patent rights because part of what they are doing is generating patent rights along the way.

¶121 Well, now you find out that some company has developed that and is pushing that product and you can't get into the market because this company is infringing on your patent. They are selling a product that's infringing on your patent. So when you go to enforce your patent, are you a troll?

- ¶122 Well, you can be characterized as a troll along the way. There are some very well known trolls out there, IBM, HP, Zenith, companies like that who are now extracting all sorts of money with respect to their patent portfolios. Yet they are really not thought of as trolls. It's only these individuals who would not have access to the court system if not for contingency litigation.
- ¶123 If you've got a company and you're talking -- what is contingency litigation all about? What's the dynamic and how has that dynamic changed?
- ¶124 And I'm going to try to keep us within my 15 minutes and get us back sort of on track. But how has that changed over time and what's the future going to look like for contingency litigation? You have a company. You have \$250,000 worth of seed money. You want to go into a lawsuit. You say, I have to sue this company in order to break into this market. How am I going to do that?
- ¶125 Well, kind of a baseline, a very basic patent infringement case would be quoted at \$1 million. That's not an unrealistic number. I think we'll do it for less sometimes but \$1 million. People will laugh at that and say you can't do a patent case for \$1 million.
- ¶126 Let's just take that as a rough sum, a base number. You're not going to be able to come up with a \$1 million to go through that case.
- ¶127 So what happens? Do you just say, I'm done. I'm finished. I can't get access to the court?
- ¶128 No. You go to an attorney. You show the case and the attorney then picks it up and takes it on what we call a contingency basis. The contingent is you're not going to get paid unless you get a result. That's the pot of gold at the end of the rainbow.
- ¶129 You're not going to get any money unless you settle a case -- and that's the major objective because as Dan said most cases, especially patent cases, are going to settle. We're going to settle the case rapidly or quickly or take it through trial and get a result. Thereby, you take in a typical situation -- a non-patent situation might be 35 percent.
- ¶130 In the patent world, as we see, it's a different dynamic though because the costs are so great because the effort is so great. I mean, you're quoting a case at \$1 million in fees. That's fees. That's not expenses on top of that. The expenses, which are always a constant, regardless of what the fees are in terms of experts, those expenses can easily be \$300,000 all by themselves that you have to pay. Somebody has to expend that money. So your company can't do that. They don't have the resources to do that. So that's why you have to resort to a contingency arrangement. Otherwise, you would never be able to get into court.
- ¶131 So a patent situation because of the cost and the time limit involved in that, you're upward of maybe 40 percent. Those numbers may shift. If you actually go to trial, then maybe 45 percent. Especially if the company -- if the firm has put up the fees associated with that, that's hard money. It's one thing to say I will spend my time and perhaps lose my time along the way. It's another thing to say I now have got to pay the expenses associated with this to get myself to the point I can recoup money.
- ¶132 So if you say I'm going to get a third, 35 percent, maybe 45 percent of this, you need to say, well, if it's going to cost me \$1 million in fees to get in -- services and fees to get into the point where I would be able to reap, then you know what we talk about is like a multiplier. You've got to have at least \$3 million in recovery to get your \$1 million back. And if that's all you're looking at from a contingency standpoint, you're not going to do it. It's not going to happen. So you must look in terms of a 3, a 4, a 10-X. That's

what you're trying find if you're going to get into a contingency litigation in the patent realm. So now to even sniff at a case, you are talking \$10 million in the hope of getting back perhaps three times what you may have to ultimately invest, that \$1 million along the way.

¶133 I appreciate Binal doing that because he and I have been opposite each other in a patent contingency case. I represented the plaintiff. Binal represented the defendant -- represented the defendant way too well, as far as I was concerned.

¶134 Jeanne, I have a patent contingency case opposite Jeanne's firm. So anyway we have some history going on here. I do appreciate you doing the slides for me, Binal.

¶135 So there is a percentage of the recovery.

¶136 Expenses we talked about.

¶137 The way that the world sort of works now is you want to try to get that recovery sooner rather than later. Even in the patent world, it's going to take some time to get to a point where you're ready to settle a case because you can imagine, if you know your break point is \$10 million getting into this, it's unlikely that the defendant that you approach is just going to sit down and write you a check for \$10 million. So there's going to be some spending to get to the stage where you might be able to settle that case.

¶138 The typical situation -- you know when we talk about contingency cases, non-patent contingency cases, the idea is that a lot of those cases are going, churning along in there so that you have many in the queue. And when you're doing perhaps slip and fall type cases, product liability cases, med/mal cases, they are not as fact intensive. They are not as document intensive and they are not as -- you know, it doesn't require as much effort but the payout is also going to be fairly smaller too. You're dealing hundreds of thousands of dollars and not tens of millions of dollars in there. That's how macroeconomically if you are in the contingency world you do it. You don't have one case. You have a lot of cases going along.

¶139 Well, you can see already it's kind of difficult to do that in a patent world because of how much effort it's going to take. Now let's say in the past -- in the past there's been a situation where it might take you four years or five years to get through the entire process if you can't settle the case, go through the entire process and then finally reap a reward. Get the pot of gold at the end of the rainbow after appeals, et cetera, four or five years. That you might say has been the situation.

¶140 Patent litigation tends to be different. One thing that Dan touched upon is why is it different. It's basically trench warfare when you get down to it in a standard patent case.

¶141 You start both parties, defendant and plaintiff, opposite each other and you start lobbing mortars at each other for some period of time because you don't know what the case is really all about. I think Jim Dabney will touch upon that later when he talks. There is an element of mystery associated with patent litigation.

¶142 It's arcane for one thing but besides that and the rules that are associated with it, it is a different kind of beast. Lots of documents. Lots of technology that has to be absorbed.

¶143 And -- this is particularly important from a contingency standpoint -- you don't know what you've got when you necessarily get into the case. You've got a patent and you have got a product. You can look at them and compare them and make some decisions based on that as to whether you want the case and whether it's a good case, but you are going to go through this Markman process.

¶144 That Markman process is going to determine what your patent is. You don't know that. You don't know that going in. You may not know that for years going down the road until the Judge renders his Markman opinion or until thereafter the Federal Circuit decides whether the Judge was right or wrong in that. You have defenses that you don't even know about as the defendant such as negligible conduct, best mode, the inventor exposed the best mode, was there a sale. You can't see that going into a case because you don't know about it. All you know is what happened at the patent office and that's it.

¶145 So what happens if you have got a \$10 million risk or a higher risk, you can afford to litigate as a defendant for a while there. Maybe wait out the other side, which is why you don't see a lot of small firms doing much patent litigation because you're putting five years, five years of effort, shall we say, or at least five years of time between when you're likely to start the case and when you are likely to reap anything.

¶146 What happens today? What is different? Why am I talking about this at all?

¶147 We have cases that you will talk about. I'm not going to go into them in any great detail but here is how the landscape has changed in the contingency world because there are law firms that do contingency patent litigation. They are figuring, yeah, we can do this. We can reap enough to make this economically sensible over time.

¶148 But then out comes the Ebay -- and these are all recent cases. These are recent hits to the contingency bar. Ebay comes down. One of the big hammers that you have got with respect to a patent is the ability to enjoin, to stop the infringement. That has been a big weapon for anybody to use. And prior to Ebay -- and part of the injunction was virtually automatic. If invalid, infringed, you get an injunction. So if a company is facing that, that is a big risk. If you have a 5 percent probability of even getting an injunction against your company, you're going to want to settle that case because your shareholders are not going to be happy if you have to shut down that entire product line or shut down that business.

¶149 With Ebay, essentially, if you don't manufacture, you are not going to get an injunction. So that's gone. That's disappeared. So the big hammer that a patent litigant had is disappearing in the contingency world for all intensive purposes.

¶150 You have KSR coming down. KSR has essentially said, you know what, obviousness is not as hard to prove as it was before. It's going to make life easier to prove obviousness as a defense to patent validity. In fact, what are we seeing at the patent office? We are seeing in terms of the litigation that I am involved in that the defendants take the patents and run right back to the patent office, even on the very same prior art -- and that's the example we're using, prior art -- even on the same prior art that was before the examiner and the patent office is setting up the reexaminations, which is essentially putting the patent back into play at the patent office. All right. A whole new landscape as we're looking at it. I see that in many, many patent contingent cases.

¶151 What's the upshot of that? Well, of course, the patent is now at risk. You've also upped the expense because somebody has to pay for defending that patent, getting it out of the patent office. So that money has to come from somewhere. It may well be the firm that is prosecuting that case on behalf of the plaintiff. You know, for the litigation and now the patent office because maybe the litigant doesn't even have the money any more to take its patent through the patent office system.

¶152 You have also added years, two years probably minimum, maybe three years before that patent comes out of the patent system. So if we say that our benchmark or baseline

was three to four years to get that pot of gold, now you are looking at seven years, eight years, maybe nine years. How does that play out?

¶153 Well, in terms of the firm dynamics because when you enter into a contingency case, you're saying we're going to take resources that could otherwise be used on perhaps billable matters, money coming in, and we're going to forego that for some period of time because we're hoping to get that 3X, 4X, 5X down the road, that payout.

¶154 Firms change. People move around. None of us up here started with the firms that we are with today. So that changes. You're not going to have people who are really -- your partners who are really going to be terribly interested in saying, I'm going to forego money today, tomorrow, next year, the year thereafter in the hope of getting it nine years from now when I'm not going to be here necessarily. So it's very hard now to sell patent contingency cases because the time for the reward has changed dramatically.

¶155 The other thing that's come down too in terms of what I call this trifecta as it affects patent infringement cases is willfulness. Willfulness used to be something nice to be able to say to the defendant and say you are infringing my patent, and you have done it willfully because you don't care because you think you can get away with this and I have evidence to prove it. Well, in which event if you prove it, you get some multiple of damages associated with your reward. The jury award or whatever the damage award that comes out of it may be up to three times. Okay. So that existed before. It was something like the injunction hanging over the defendant's head.

¶156 Well, with Seagate, it's almost going to be impossible for a party to prove willfulness as far as I am concerned because there is now an objective standard that's injected into the whole process.

¶157 I have already seen District Court cases where the District Court basically said, Well, I'm reading it and I'm sorry -- even though there is excellent facts for the plaintiff, I don't see how I can find willfulness under the circumstance. So that age of willfulness has basically disappeared. What it all means is it's much, much harder. You know, the leverage of injunction is gone. More reexamination. The time period is extended. The down side of treble damages virtually eliminated.

¶158 What you have now -- what you see is a pot of gold farther away, way down the stream, ten years. How many firms are going to be willing to actually say I'm going to invest my time and energy in a ten-year process like this?

¶159 Even if I've got a lot of cases going on -- which most firms don't have a lot of cases going on, at least in the way of patent contingency litigations because they are so intensive in the sense of resources of the firm. Firm dynamics, that's what I am just describing. That's going to weigh against taking on a case.

¶160 So what the result is going to be is we're going to be back in an environment where there's going to be very few contingency firms available to people. They are going to have to be contingency firms that take cases on a regular basis and do what I said, that kind of loading where you have multiple cases revolving at all times so that you've got a constant flow of contingency income coming in as these cases reach fruition over time, but there are only a few firms that are going to be able to do that and do that well.

¶161 That means the doors are going to be closed, in fact, to most small plaintiffs who have a case for \$5 million, you know, that may be the upside -- not even going to happen.

¶162 \$10 million, perhaps not even at that kind of a price point will a firm be willing to take it on.

¶163 It's going to be hundreds of millions of dollars if you're going to do it at all. There just aren't that many cases around. So we're back essentially with what kind of a system do we have where an outfit, such as Northwestern Law School, who's had an innovation can't get themselves into court because the costs are just prohibitive of that. But that is how I see the future of contingency litigation. Few firms. Huge cases that they will take on. And as for the little guy, it's not going to be available.

¶164 Thank you.

¶165 (Applause.)

¶166 MS. GILLS: As Mike mentioned, my firm has been against his firm in troll defendant litigation -- not me personally, but that is something that we have seen a lot in the 21st Century and some of the cases that Mike put up in his presentation, a lot of commentators feel that cases like Ebay, KSR, Seagate and In re Bilski -- which I am going to spend a lot of time on -- are reactions to either an increasing number of bad patents or an increasing number of litigations, costly litigations in many instances, filed by companies that typically don't make or sell anything but really are in the business to license their intellectual property.

¶167 The In re Bilski case that I'm going to spend time on really has put into the forefront what constitutes patentable subject matter, particularly under Section 101.

¶168 The Supreme Court and some other cases have also commented -- either justices and concurring opinions or descending opinions have also talked about the economic value of business-method patents and where we are going to go with them.

¶169 As an overview of what I'm going to go through today, I am just really going to hit the highlights. We can probably spend all day talking about that case and some of its progeny and some of the similar cases that have come out recently in '07 including Nugent on signals and Comiskey on a method of arbitration clauses that are included in things like contracts.

¶170 I'm going to hit the highlights, talk about potential impact of that case, some consideration that I think the Federal Circuit will be looking at and the questions that were raised when the Court about two months ago decided to rehear this case en banc and what Bilski, the PTO and various Amici briefs have argued in response to those questions have been raised.

¶171 I think the speaker that you are going to hear from later is going to spend a lot of time on KSR. My presentation really just has some of the highlights and some of the comments in that opinion that I think have spawned a lot of future cases that have cited KSR and provided some bases for defendants to be successful in making an obviousness defense in light of KSR. I have included just a couple of strategies for litigation if you are either the plaintiff defending against an obviousness claim or if you are the defendant and making one.

¶172 I always like to show people numbers. I think stats are interesting. You can't over rely on them but I think they do give some insight. As I think Dan mentioned earlier, if you're a defendant and you are trying to decide what are the defenses I am going to take to trial, what are the defenses I am going to pursue in summary judgment, what are we going to get our client's hopes up on or what are we going to tell them about this problem that's not going to be that viable.

¶173 The litigation defenses I'm going to cover was taken from a study that was led by Paul Ganeke out the University of Houston and the IP center there, and they've looked at

a lot of patent litigation claims and defenses over the last seven years and I have summarized some of that data.

¶174 So starting first with *In re Bilski*.

¶175 As we know February 15th of this year, the Federal Circuit Court said they were going to rehear this case en banc. In that particular case, *Bilski* wanted a patent on managing consumption risk associated with commodities at a fixed price.

¶176 In this particular case, the claim that was at issue, claim one, was different from some of the claims that had been present in some of the cases. In *Nugent* there were claims to the signal itself that the Federal Circuit said that weren't patentable. The Federal Circuit had found that other claims to a process or generating or storing the signal might be allowed under 101, but those particular claims could not be allowed to just the signal itself.

¶177 In *Comiskey*, the Court said that you can't have a patent that covers a mental process. The Court argued that *Comiskey* was trying to cover -- or the use of human intelligence itself and that clearly that was something that was not patentable subject matter. There were claims for modules for doing the steps but those particular claims in *Comiskey* were invalid under 103.

¶178 So now we're looking at the *Bilski* claims. One of the things that *Bilski* argued was that it was not an abstract idea, but it was a practical application that led to a useful concrete and tangible result.

¶179 One of the things that the Federal Circuit said when it said it was going to rehear this case en banc is whether or not it should reconsider the landmark decision in 1998 of *State Street Bank*, which generally held that business methods could constitute patentable subject matter.

¶180 I'm going to show now the particular claim that is at issue in *Bilski* because unlike the claim in *State Street Bank*, which was tied to a machine implementation, the claim in *Bilski* is not.

¶181 So we show the claim here -- and I'm not going to read it for you but essentially it says that it's a method for managing the consumption risks and there are three various steps that are laid out in that claim.

¶182 Here is the claim again and it is parsed out a little bit. And if you look at subpart A, the claim commodity provider could be an energy provider in this particular case and the consumers would be customers of that energy provider. The consumers would be offered a fixed rate for their energy bill based on historical averages of their consumption use. The goal would be to prevent extreme spikes in your bill.

¶183 Step B would involve a market participant such as a speculator. Someone who comes in and says, you know, I've got a large inventory of gas or energy and I'm going to guarantee a sale of this commodity in the future based on a contract right now.

¶184 And then you look at step C, which refers to a second fixed rate, here the goal is if the price of the commodity goes down, then the market participant or the speculator has made a very good deal. But if the price goes up, then obviously that's a less than ideal contract because the market speculator has made less than the company would have made but for the contract.

¶185 So what does the board of patent appeals and inferences say?

¶186 They said that this claim was not directed to statutory subject matter. That it was an abstract idea because it could be implemented not by a machine and that it was not a claim that transforms something into something different or something else.

¶187 If you can think about claims that are transformative, you can think of a claim that transfers heat into mechanical motion, electromagnetic waves into space and current in a wire or as the case we saw -- the Supreme Court from many years ago, *Diamond vs. Deere*, where you transferred raw rubber into a different state of material.

¶188 The Court said in its prior decisions and in prior Supreme Court decisions that the test as laid out by, for example, the *Deere* court would still allow for unforeseen technologies that might not require machine implementation or transforming something into something else. But in the case of *Bilski*, this was merely an abstract idea.

¶189 One of the reasons why a lot of commentators think that this is a test case is that the particular claim one at issue was not rejected on prior art ground. Some view was that they didn't want to issue a prior art rejection and then have the court affirm and not really deal with the broader issue of whether or not this was patentable subject matter under Section 101.

¶190 The PTO also just generally commented on, you know, this is not the only example of this type of claim. There are lots of examples where patentees are pushing the boundaries.

¶191 After *State Street Bank*, there's been ten years of an explosion of not just business-method patents but patents which the patent office called patents on mental processes or abstract ideas. So then in the PTO's brief they gave an example of some of those -- in their view -- unpatentable abstract ideas. The mere recording of data, the throwing of a ball, dating -- people love to see that one, perhaps I can learn something -- physical sports moves, legal methods, methods of teaching, methods of holding a conversation, methods of swinging on a playground swing.

¶192 Again, what the PTO is saying in *State Street Bank* that we had programmable machine claims for calculating daily gains and losses in a portfolio. This was a very practical application that was tied to a machine and it led to the machine transformation of data.

¶193 Likewise, in the *AT&T* case, there was a machine based process involving pulley and operators to determine a value of a certain indicator. And in *Bilski* you have something entirely different.

¶194 I mentioned earlier that the Supreme Court in some earlier decisions some Justices had commented on business-method patents. And in a concurring decision by Court Justices in *Ebay*, they talked about the consequence of injunctive relief in the event of a business-method patent.

¶195 You know, it said that the potential vagueness of suspect validity of some of these patents may affect the calculus under the four-factor test.

¶196 A month later, three of the same Justices also commented on business-method patents in the laboratory court case, where they said that the *State Street Bank* case did not help the respondents here because they said that even though the case does say that a process could be patentable if it produces a useful, concrete or tangible result, if taken literally, this will cover instances in which the Court said that that's really not a test. I think the reference there was to a very early Supreme Court case. I think the *Morse* case from the 1800s.

¶197 So now what is Bilski arguing in response to the questions raised? In the en banc or the hearing, the decision from February of '08, saying that we're going to rehear this case en banc, the Court set forth five questions that they wanted supplemental briefing on and I'm just repeating them here.

¶198 The only really factual based question as it relates to the Bilski case was should that claim, one, be deemed patent eligible subject matter under Section 101.

¶199 The other questions, two through four, really go to the standard for what constitutes patentable subject matter under Section 101.

¶200 And the final question really goes to whether or not it's appropriate to reconsider the State Street Bank or the AT&T case.

¶201 Bilski has essentially continued the same arguments it made before saying that the claim method does produce a useful and concrete result and that it leads to a practical application that has been very useful in the industry and that this process also includes physical steps, including a series of transactions, so that it's not just mere mental processes.

¶202 Bilski also relies on several prior Supreme Court precedent where the Court said that even though a process which is machine implemented or which transfers something into something else can meet Section 101 eligibility, the Court has said that those weren't the only two potential qualifications, and they were not intending to foreclose other possibilities. So Bilski is saying this is now another possibility.

¶203 Just as a continuation of those arguments, Bilski argues physical transformation and machine implementation is not necessary and that there's you're need to adjust or revisit State Street Bank or AT&T. That those were well decided based on the legislative history and prior precedent.

¶204 The PTO again is continuing its sort of same arguments. It's saying that merely because Section 101 refers to process as a potential type of patentable subject matter, that process was included as a codification of earlier cases. But that if you looked at those cases, all of those cases held that the process must be tied to a machine or must be transformative. The Court said that to the extent there was flexibility in the language in some of those cases, that flexibility was to cover unforeseen new technology and that the mental process steps of the Bilski claim do not fall under the rubric of unforeseen new technology.

¶205 They go on to say that perhaps State Street Bank and AT&T might need to be clarified to the extent that they could be relied on to reach an alternative conclusion. I think some of these points I have sort of covered already.

¶206 Lots of Amici briefs from a wide variety of sectors. The IT Sector, the financial industry, biotech industry, the ACLU which has raised some First Amendment concerns. I just put some of the themes I think from those Amici briefs.

¶207 One clear one is that Section 101 is fine but that what the Court really needs to focus on is adding more teeth to the other sections, Sections 102, 103 and 112 and that Section 101 is really just a threshold of inquiry. And if there is a concern about the number of bad patents, that those can be addressed by making 102, 103 and 112 stronger. And that further you shouldn't use the existence of some bad patents to create bad law.

¶208 You've got various entities who, one in particular, which I like their name, End Software Patents. They were for narrowing of 101. One of the points that they raised is really directed to trolls. One in particular is the Data Treasury litigation commenting that

companies like Data Treasury in that litigation have a cost to consumers and they make reference to a cost to consumers of \$1 billion as a result of that litigation.

¶209 It said that if software patents are going to be patentable, then they need to have substantial physical manifestation and not merely just rely on the software application.

¶210 I thought the ACLU's argument was interesting because they said that the Court really needs to examine this case to the extent this indicates First Amendment rights in that aspects of the Bilski claim could involve pure speech or thought. They use their brief to attack the larger doctrine of inducement to infringe. And as it relates to the Bilski, they claim a person can in theory infringe a claim if you as a seller had an idea to minimize risk in this area and you have two conversations. As a result of having those two conversations where maybe you encourage a market participant to do something and as a result you've got a gas company that offers a customer the ability to have bills at a fixed rate over time, you can be someone who's an inducer to infringe. So they raised First Amendment concerns.

¶211 You've obviously got several folks on the side of Section 101. This is fine in that we need a strong system, again saying that you should use 102, 103 and 112 to fix the problem with bad patents.

¶212 The AIPLA encouraging business-method patents, with keeping up with innovation and Section 112 is a good way to deal with patentability problems.

¶213 So you've got a lot of people weighing in on how this case is going to come out.

¶214 On May 8 -- so in about two weeks -- is when the federal circuit will hear oral argument, and it is expected that a decision will come out a few months thereafter. So I'd be curious to see how things come out. I have my own thoughts.

¶215 I'm going to flip through and leave what the future holds for questions.

¶216 I'm going to skip through the KSR slide which really just gives highlights of the case and what the Court decided. I have some handouts here which give some tips and some litigation strategies, depending upon what side you are on and some of the things to focus on because I want to jump to the numbers.

¶217 Actually, I had it up really quickly but I would be curious to see in the audience which do you think are the best defenses for an accused infringer to raise in terms of which ones at least over the last seven years have been the most successful?

¶218 Anyone?

¶219 Mr. Word, what are the best defenses?

¶220 A STUDENT: I would have to say -- in the past seven years or since KSR?

¶221 MS. GILLS: Well, let's say in the past seven years and then you can answer it based on KSR.

¶222 A STUDENT: I would guess the best defense would be just non-infringement.

¶223 MS. GILLS: Anybody disagree?

¶224 All right. What is the best invalidity defense?

¶225 All right. I'll stick with you.

¶226 A STUDENT: I would guess inequitable conduct.

¶227 MS. GILLS: Anyone else?

¶228 MR. SCRUGGS: I'll throw straight anticipation out there.

¶229 MS. GILLS: I should have put the inequitable conduct numbers up. That is not one that I put in my chart, but I can give you the answer to that question a little bit later.

¶230 But you are correct that historically -- and I think even if you go back to data prior to 2000, if you're a defendant, the best defense to raise is a non-infringement defense. It's well over 60 percent. These are numbers that have been consistent every year from year after year.

¶231 Obviously, if you're a defendant where the only thing the plaintiff has on you is the DOE argument, you're in really good shape. Defendants are winning those types of claims well over 86 percent of the time.

¶232 In terms of the other invalidity defenses, Dan mentioned Section 112 defenses. And, historically, the 112 enablement written description defense has been very strong and is getting stronger.

¶233 Best mode and indefiniteness have not been as strong but are getting better.

¶234 102, non-prior art, so public use or sale has also been historically a pretty good defense to raise.

¶235 In terms of some of the less favorable defenses, I had claim indefiniteness on the chart because as of last year when you only looked at data from 2000 and 2006, that percentage was at 32.5 percent. So it's really spiked in the last year where more litigants are making an indefiniteness defense to claims.

¶236 Best mode has also jumped up to 20 percent. The last six-year view was about 18 percent.

¶237 102, prior art, so your anticipation type defenses, 42 percent, also up from about 40 percent looking at just 2000 and 2006.

¶238 And obviousness -- looking at 2000 to 2006 was about 40 percent. And even though it looks like it's only gone up slightly, if you only look at data from 2007, there were about 98 cases that the Janeky Group looked at with an obviousness defense. In 54 of those, the defendant was successful. So a huge swing not just in the number of successful defendants but also the number of defenses raised because you compare 98 to the entire sample from 2000 to 2007.

¶239 There were about 420 obviousness claims in that period and about a fourth of them came just last year. In the slice from last year about 55 percent of those defendants were successful. So I do think that that is an indication that KSR is having some impact not just on the win rates of defendants and raising those defenses but in the number of those defenses now being made both at the summary judgment level and at the trial level.

¶240 And with that, I will take my seat.

¶241 Thank you very much.

¶242 (Applause.)

¶243 MR. PATEL: All right. I have got a little bit of a show and share.

¶244 My daughter every Friday has to go to school and has to bring something and show it off and talk about it. It's very exciting for her, but it's very stressful for us because we have to find something for her. So this is my IP version of the show and share.

¶245 I'm going to approach -- as I get the slide opened up -- I'm going to approach this talk a little bit differently. The colleagues here have talked quite a bit about changes that have occurred in patent law over time and there have been significant changes over time.

¶246 In the 20th Century, Markman was it. When I started the practice of law, Markman came out and that was it. It was exciting. Lots of people talked about it. That's all they did was talk about Markman.

¶247 In the 21st Century, things have changed significantly. There's been numerous opinions that have come out dramatically changing how we practice litigation nowadays and the law keeps changing.

¶248 So what I'm going to do is approach this a little bit differently. There's been changes in technology that has affected how we practice IP litigation in the states.

¶249 You know, 20th Century, imagine the day when computers weren't around and you had to write a brief. You dictated it -- and back then we called them secretaries. Your secretary went to the typewriter and typed it up.

¶250 Now I wasn't involved at that time but can you just imagine walking into a law firm and seeing rows and rows of people typing away on a typewriter. I mean, imagine how noisy that would be.

¶251 Then we came up with the computer but we had dot matrix first. So then you printed all of this stuff but you then heard all of this loud noisy stuff in the hallway.

¶252 Now we finally came out with Windows and Word based documents, word processing programs and that was great. Slowly we started incorporating graphics into documents and that was really exciting. Wow, you can actually cut and paste a figure of the patent into the brief itself and that was really cool. Then someone came up with the idea maybe we can add color to this whole thing. Then you started to add color to your briefs. So you had color briefs and that was really exciting.

¶253 The excitement, I think, is continuing. I'm going to show you examples of what IP litigation is like in the 21st Century. So it's a little bit of a show and share. Let me get started and then I am going to have to stop in between as I talk.

¶254 The first couple of points is really how we use technology to litigate a case these days.

¶255 Patent litigation is a little bit different than traditional litigation because you're dealing with fairly complex technology. It could be simple. It could be a mechanical thing where you bring something in and you say, I have a patent on this cup. We can talk about it. It's very easy to talk about. But more often than not, it's going to be something very complicated. It's going to be something that may be microscopic. You can't see it. It's part of a client server network. You can't describe it without actually showing how things work. So that's actually one of the things that I find very challenging and very interesting in the practice of IP litigation. I'll show you some of the tricks of the trade that we use.

¶256 Another thing that's developing as Dan and Mike mentioned briefly about how, you know, now it's not about just a short stack of documents. It's tons and tons of documents and those are all in electronic form. How we use litigation software to deal with that sort of stuff and then e-discovery. I'm going to briefly touch upon it because I think most of the audience here -- if you go into the practice and you're going into IP litigation, this is going to be one of the things that you are going to deal with every associate in any firm.

¶257 So going in, let me just start off with some of the easy things.

¶258 Timelines. Very effective. It's a great way to tell a story. This is what happened on this day. This is what happened on that date and it's simple. It's very effective.

¶259 Here is what you can do. PowerPoint. You can build a timeline. On December 1990, this is what happened. Magic Johnson called Hardaway the king of crossover, and there is a great article.

¶260 Then somebody decides to file a design mark on the crossover game. That's what happened on this day. And then Tim Hardaway continues with his thing. On this date, there was a lawsuit. A timeline is built. You can tell your story. It's persuasive and you can get an idea of how things are developing over time.

¶261 Let me show you how timelines work. Now I'm not saying how this isn't used these days but let me show you how timelines were also used.

¶262 This is an example of timelines -- we've got a very interactive timeline. You've got a conception that occurred back in January of 2000 and you can tell your story.

¶263 This is what I conceived back in January of 2000 and this is what it looked like inside.

¶264 You go back to your timeline. You can tell your story. On February 20 of 2000, we launched this and we distributed this product throughout the country and these are all of the states we sold. We sold 500,000 of these. I'm going to show you a pie chart because it looks really cool.

¶265 You know, these are -- and this is what the bad guys did. XYZ Corp., they sent a cease and desist letter. They had the gall to tell us this in this letter despite us having come forward with this product many years before.

¶266 Then this is what happened in court. This is what the Court said. On April 20 of 2000, this is what the Court said -- and they ruled in favor of us and we were fined. But despite doing that, they sued us in 2001. These are the types of stories you can tell. It's very interactive. You can add color. If you're going to tell this to a jury, this is something that adds a little more persuasiveness and adds a little more interest to what you are trying to tell. So that's timelines. It's something that I think we have all used.

¶267 Let's go to graphics. In patent litigation, you need graphics. Back on the board maybe you blew up something. You had something in color and you worked off of a blowup.

¶268 Now it's very common in courtrooms very equipped with technology. You can bring this in through your laptop. Power Point is very commonly used these days.

¶269 Graphics are sometimes very critical to teach the technology. This is just something simple. It's a graphic that talks about how fiber cable optics works and you can show through color very cleanly how things work. You can potentially even have an expert just stand up and talk about it.

¶270 You can use graphics to show -- establish your infringement in the case. Here is what our claim requires and this is what the accused product looks like. You can use color to specify and identify exactly where things fit in.

¶271 You can teach your patent using graphics. This is what my claim is on the left-hand side. This is figure one and I am going to show you how things fit in.

¶272 This is a lawn mower that you're seeing on the figure here. Here are the front and rear wheels. Here's the power source. Here's the operator's key. Here's the steering system. Here's the rotary -- whatever those things are -- cutting deck assembly and so on and so forth. These are examples of how you can use graphics in IP litigation these days to pervasively advocate your position and educate the Judge and the jury.

¶273 Animation, this is all becoming a growing tool in IP litigation. Before I continue, I'm not advocating that you use this all of the time. You have to just recognize that these are the tools that we now have and it is the litigator that needs to decide what's most

appropriate in terms of cost, what's most appropriate in terms of the audience and the client and the technology as well.

¶274 So animation, it's another thing that you can use very easily. Sometimes graphics don't cut it so you need to bring in animation.

¶275 Let me show you how animation can be implemented at litigation. It's very commonly used, for example, in Markman proceedings. Markman, by the way, is a proceeding in front of a judge where you are disputing what the claim term actually is.

¶276 The patent owner says this claim means this. You know, widget means it covers XYZ. Defendant says, "No, widget in that claim only means X. It doesn't include Y and Z."

¶277 And then you fight over it and then the Judge has got to decide what to do about it.

¶278 You can have a presentation to explain how things work. It's not used all of the time but it's becoming more and more common where you can actually teach how things work. This is graphics. This is something that's in the presentation. It's a graphic that occurs. The sound isn't coming through, but, you know, you can hear someone talking. And then you can see as you are talking it's a figure from the patent. You will see how you are building off of that figure and you're showing -- you're teaching exactly what this patent is talking about.

¶279 You can go through and, you know, the voice will talk about, well, this is what this is and that's what that is. These are the things that you need to know about, Judge, because they're relevant to the issues that we are going to be disputing later on down the road. You can use graphics very effectively and very cleanly to teach things that are fairly complicated and technical in nature distilling it down to a judge or a jury and it keeps going. I can show you. Ultimately, at the end of the day, you can use graphics to show your position.

¶280 We have got two patents in dispute. These are the claims. What's in highlights are the dispute terms. Judge, here is what this term means. You can point to it. You've got graphics. Judge, you can take this home or the law clerk can take it home and figure out what all of this stuff means and you can point to graphics exactly what your position is and why your position is what it is.

¶281 Again, I'm not advocating it be used all of the time. It's just tricks of the trade.

¶282 Many outfits are available these days that provide this sort of service. This is not something that law firms typically do in-house.

¶283 Some of the graphics that you saw previously were from this company called Animation Technology. There's others, Trial Graphics. There is numerous versions out there. This is an example of some of the technology that's available.

¶284 Okay. We have covered that.

¶285 Real-time and video depositions. This is something that I think was around before, but I think it's being used more and more nowadays.

¶286 Real-time. What does that mean? It means that you're in a deposition and the witness is testifying. That testimony is showing up on your computer screen real-time. You're connected directly to the court reporter and the witness' testimony is coming up. You are seeing exactly how the testimony looks.

¶287 At the end of the day when you take a deposition, you know, the deposition may have gone great but when you walk out of it you have got to look at what the transcript looks like. Was it clean? Were the snippets proper? Sometimes what you thought you

got, you didn't really get. Real-time helps you make sure that you get what you want to get and it's not necessarily something that maybe the first chair would use but maybe the person sitting next to the person actually asking the questions would use making sure that the snippets are clean and the testimony is exactly what they want. It's a great tool.

¶288 Another tool that's being used more and more these days is video depositions. It's in addition to a written transcript of the deposition.

¶289 There is also a videotape of the witness. There's many advantages. You know, there is advantages -- and I'll show you why you want to use a video deposition but one other advantage is it causes the lawyers to behave instead of acting out and yelling at each other -- and this doesn't happen that much in patent litigation but it happens. You know lawyers being, you know, intimidating, objecting a lot, things like that, when you have got a video, everyone is on their best behavior. So that's actually an interesting tool to use.

¶290 MR. BANIAK: Especially when you are disseminating on the Internet. I have seen those.

¶291 MR. PATEL: So real-time and video depositions, ultimately, you know, this is just kind of like what you can get at the end of the day. You've got a video feed and you've got a real transcript and then you've got to sync the two that you can use at the end of the day.

¶292 Another benefit of having video deposition is when you're at trial and you've got numerous witnesses that went up on the jury box and the jurors don't remember John Doe from Jack Doe to Jill Doe -- I mean, you can't remember names. You can remember faces though. You can actually put up the video -- or not the video. You can put up a still. You can say, Remember this witness that testified, she said XYZ. And that witness that testified, he said XYZ. And this one that testified also said XYZ. It's a little bit more persuasive. It keeps the jury a little more awake.

¶293 Here is an example of I wish we had audio but -- you know, but so be it. That's fine. Let me see if this works.

¶294 A little snippet from you want to impeach a witness. This is actually that's directly on PowerPoint. You can actually hear the witness talk. It's very effective when you've got a witness that says X on the stand but said something else during deposition. Instead of throwing out the transcript and trying to impeach the witness, it's fairly effective when you throw up the video dep in front of the jury and you've got a witness saying X on the stand but saying Y on the videotape. Interesting tool, a trick of the trade.

¶295 Another example -- I think everyone gets the point. These are some of the things that you could use in the 21st Century in IP litigation. Generally, this could be applied in any litigation as well.

¶296 One thing that I think has gone dramatic are the types of litigation services that are out there. There's numerous types of support services software and third-party vendors. Some of these I've already touched upon, graphics and animation. When you're dealing with electronic documents, they are not in paper form. They are on computers and servers. You need to engage potentially, you know, an electronic discovery firm to help you find all of that data. You might need a computer forensics firm.

¶297 Let's say you've got an employee theft situation. Someone that left the company and took all of your trade secrets. Now you've got to prove your case. You've got to bring in a forensics firm to go into your system and figure out what was deleted, what

was copied. These are services that are out there, and these are things that are being used more and more in IP litigation in the 21st Century.

¶298 Litigation software, that's also something that's very critical, especially for folks getting into a firm doing patent litigation or IP litigation in general.

¶299 Discovery management software. Here's a screen shot of one that's fairly common. It's called Summation. In one application you have got on the right-hand side -- you've got the transcripts. You've got the people. You've got a whole bunch of information that you can use and you collaborate on this.

¶300 When you're going through documents, you're not reviewing documents now necessarily -- not in all cases but in quite a few cases you're not reviewing documents. You've got a box of documents on your desk and you are flipping through one page at a time. You are now looking at documents on your laptop, and you're flipping through screens of documents.

¶301 You know, we have people that sometimes go into a room and have multiple screens and look at documents on the screen. As you are looking at them, you are marking them up electronically. You are putting notes. This is a great document for issue X, for issue Y. The next person that comes in and looks at the documents, they can mark it up as well and then you collaborate. You use litigation software to do that.

¶302 Case strategy. There is software available for that.

¶303 Trial presentation, another interesting trick of the trade. Let me pull that up. Here is one example of trial presentation software.

¶304 Before you had to do this in advance. You had to get it done in order to effectively use it at trial.

¶305 Now with software, you can actually use it on the fly. I've seen it done very effectively by multiple parties. You can pull up a document -- first of all, one of the reasons we do this now, I believe, is because people like to watch things on TV. You know, they don't want to hear me talk. They don't want to hear a witness talk. They want to see something on TV. They want to see the video. You know, maybe it's because that's what we have and what we're used to as every day folks. We like to watch TV. We like to watch things on the news and we like to see things blown up.

¶306 For example, in this case, you've got a document. Just to see it like it's a Nightline Special and you're blowing up the document. So-and-so, isn't it true that you are the inventor on this case? It says so right here, isn't that correct? Isn't it true?

¶307 And isn't it true that this patent issued on May 27, 1997?

¶308 It's used very effectively on the fly by either the actual attorney or you have an IT person who's in the background that knows exactly where you are going on the document and can highlight things, blow things up. It's very effective. It's something that I don't think you saw as much at least not on a computer basis back in the '90s but you are seeing a lot of it now in the 21st Century.

¶309 A few more things that I think are of interest. You saw that E-discovery. This is going to be something that anyone that's going to graduate from Northwestern that's going to go look at a firm that wants to do IP litigation is going to be faced with. This is now a requirement that you address this issue as part of any case that's initiated.

¶310 What does that mean for you? That means when you come into -- when you go to your desk there's going to be hard drive sitting on your desk and there's going to be a note that says, please review all of these documents for privilege.

¶311 What that means is that you have got to understand how to deal with issues like that.

¶312 Or you are going to be faced with, you know, a document request that says, look, you have got to figure out how to work with capturing all documents that are our client's site that deal with this issue. It's not uncommon to have millions and millions of pages of documents produced in IP litigation. In these days, we have got cases where we have databases in terabytes of memory in terms of documents and e-mails.

¶313 How do you review documents that are stored in memory that's one terabyte big? How do you do that for privilege? On the producing side, how do you review it? And when you get it, what do you do with it?

¶314 These are very interesting things that we now deal with in the 21st Century that we didn't have as much as before.

¶315 Dan mentioned before you would have stack of documents a couple inches thick and that's exactly what you took to trial.

¶316 It's a little bit different. Why is it so popular? Why is discovery popular because of cases that have come up? I just put up a few just so you have a flavor.

¶317 Here's an e-mail. "Do I have to look forward to spending my waning years writing checks to fat people worried about a silly lung problem?"

¶318 E-mails like that happen and that's -- those are e-mails that you want as a litigator. That's why you fight. That's where you stay.

¶319 You know, an inner office e-mail giving 25 reasons why beer is better than women. Very offensive. It's exactly what you want to bring out to the extent you can in litigation.

¶320 After finding out about an investigation, time to clean up those files.

¶321 Another one, "If they enter the U.S. market, we'll cut their legs off at the knees."

¶322 Those are e-mails. It's amazing the types of e-mails you will find within corporate America.

¶323 You probably don't think about this, you know, because your e-mails aren't going to be produced. But, you know, people say things that they're thinking on e-mail. They don't think about the fact that e-mails are now subject to discovery.

¶324 They also don't think about the fact that a text message could be subjected to discovery or an instant message that you use on AOL could be subject to discovery. They also don't think about that -- when I leave a voice message, okay, I don't want to write anything down. I'm just going to leave a voice message. Okay. Nowadays corporate America, they don't use just regular phones. They use IP phones so all of your voice messages get converted into an e-mail that gets sent to someone's in box. Okay. That's discoverable. It's very different landscape now than it was before.

¶325 So who is happy with e-discovery? The people that are in the business of e-discovery. This graph just shows just the escalation of e-discovery, the business of e-discovery and how much it has gone up.

¶326 In 1999, I mean, they're virtually minimal to nothing. You will see as the years go on, it keeps growing exponentially.

¶327 Who's not happy? Probably corporate America is not happy. This is the federal rule that most people are going by and, you know, the question is whether or not the rules of e-discovery are really within the spirit and scope of the federal rules of civil procedure.

¶328 That's all I have.

¶329 (Applause.)

- ¶330 MR. SCRUGGS: All right.
- ¶331 I want to say thank you to our panelists. I'm going to give them a departing gift very quickly. We only have a couple of minutes because somebody else is trying to get in here for the lunch event.
- ¶332 If we've got a couple of questions, go ahead and fire away.
- ¶333 I am not seeing any hands.
- ¶334 A STUDENT: Mr. Patel, you mentioned that it's up to each attorney or litigator to determine how much animation to use at trial to get the message across.
- ¶335 Have you run across any instances or come up against instances where people have overdone it or tried to explain too much in their animation and the subsequent examination of the jury it's come out to confuse them instead.
- ¶336 MR. PATEL: You have to be very cognizant of making sure you use technology appropriately.
- ¶337 You saw an instance of when you try to use technology, you're subject to, you know, screwing up and something going wrong. You know, the audio wasn't there. It happens and it happens all of the time. So you do have to be cognizant of that.
- ¶338 We had a case -- in fact, this was a case where we were on the opposite side with Mike Baniak. We were getting ready to do a Markman and we had a PowerPoint and the Judge upfront right before we even started said, I don't like PowerPoints. I would wish attorneys would just speak. So you have to be cognizant of the audience you are speaking to.
- ¶339 If you're going to a trial and you have got a jury, you have got to know your audience. Nowadays you use jury consultants, if you can afford them, or rely on your local counsel to tell you, look, this is what this jury is going to want to see or this is what they are used to. You've got to apply these tools that are only the ones that are appropriate.
- ¶340 These tools are expensive. Like that animation that you saw, something like that you're looking easily at \$50,000 to \$100,000. I mean, it is not cheap. Even a graphic like that costs thousands of dollars.
- ¶341 MR. BANIAK: That's just one.
- ¶342 MR. BOEHNEN: It may be a minute long at trial and it's 50 to \$100,000.
- ¶343 MR. PATEL: Imagine spending \$100,000 and your client is there and you're in court and the audio doesn't work. You know, it's great but you have got to make sure it's done right.
- ¶344 A STUDENT: This is a question based upon Mr. Baniak's comments about the increasing length of patent litigation.
- ¶345 I saw a commentary that suggested that plaintiffs will start looking to the trade commission. I am just wondering if you have seen that starting to happen.
- ¶346 MR. BANIAK: The trouble with the ITC in bringing an action there is, yes, you will be able to get a response. You will get a result basically within nine months. It's sitting on the president's desk within that time and it has to be signed off on or not within 12 months but you can't get damages.
- ¶347 So if you want money as a result of all of it, you still have to go to District Court because all you are going to get is an exclusionary order. That's all the ITC can actually do which may be enough of a barrier to bring people to the table to settle the case because if they can't afford it in the United States, that's a real problem.

¶348 I have not really seen this up tick in the ITC just yet.

¶349 MR. PATEL: As an importing thing as well. So if it's a domestic dispute, both parties are domestically available --

¶350 MR. BOEHNEN: And you've got to have a domestic industry to go to the ITC. Many times a troll, as Mike said, is somebody who isn't manufacturing. So, you know, you're out of the water with the ITC there.

¶351 MR. SCRUGGS: Sorry. We've got to cut Q&A a little bit short. We've got to get out of this room. We're going to have lunch.