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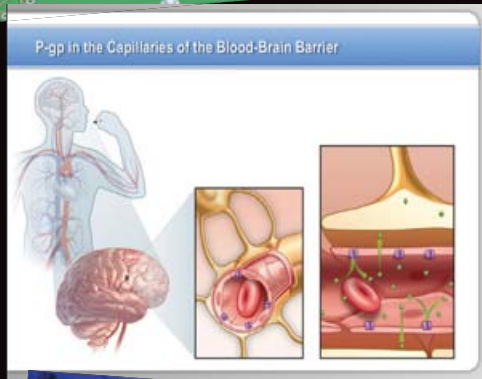
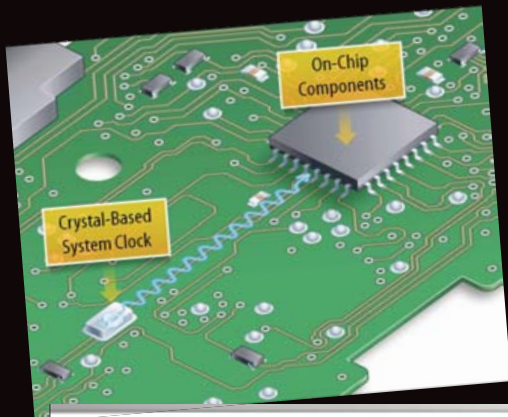
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**P**rotecting ideas. This topic was behind the largest verdict in Texas in 2009. It can also create a lot of frustration, from delayed patents to expensive litigation. It runs the gamut and is ever changing. To address these issues and more, Texas Lawyer's business department brought together the following experts to explore the current issues in intellectual property law. This discussion covers not only what is happening in the courtroom, but what it means for those of you in the board room as well. The following discussion has been edited for length and style.

**MIKE ANDROVETT, moderator, attorney and owner of Androvett Legal Media & Marketing, Dallas:** *I'm going to ask the panel members to introduce themselves to you and tell you not only the highlights of the CV, but also a little bit about the nature of their work. So, Steve, can we start with you?*

**STEPHEN A. KENNEDY, shareholder, Kennedy, Clark and Williams, PC, Dallas:** We're a boutique firm specializing in intellectual property litigation — the traditional patent trademark, copyright, trade secret and employment law-related issues. We have tripled in size in the last year, and we're continuing to grow. I personally have about 24 years' worth of experience in IP litigation, first starting at Jones Day on the Texas Instruments semiconductor patent litigation when they sued the semiconductor industry. I have worked in a number of different intellectual property areas since that time. I have recently focused my practice in copyright litigation involving engineering software, as well as artistic rights — the right of a copyright owner for a photograph, for example, under right of contribution, as well as the right of integrity — and continue to represent clients in trade secret matters involving protecting their trade secrets. Another interesting area is the Digital Millennium Copyright Act, and how that is going to play a very big role in our society in the future.

I'm involved in litigation representing a client at the Fifth Circuit Court of Appeals on a DMCA-related case, and I'm regularly sending DMCA take-down letters to various clients as well. Our firm has a number of litigators in other areas of expertise as well, ranging from electrical engineering backgrounds to chemistry backgrounds and so forth. So although we're a small firm and continuing to grow, we cover the primary areas of intellectual property litigation. Our firm recently defeated claims of Lanham Act violations and theft of trade secrets in franchise litigation against Pizza Inn where Haynes and Boone represented the franchisor.

**JANE POLITZ BRANDT, partner, Thompson & Knight, Dallas:** Unlike Steve, who has a law firm that does only IP work, we are actually a smaller group within a larger firm that does all kinds of things. Thompson & Knight does the gamut of corporate transactions. We have a huge litigation practice. Our IP group is a relatively small group within a larger firm, but our IP group does the same type of work that was generally described by Steve. I personally do mostly IP patent litigation on both sides, mostly on the defense, but we do some plaintiff's work from time to time, but we do have other lawyers that do the same types of work that Steve has described. I personally also have an expertise in E-discovery, and I help our litigation section with E-discovery issues, ranging from drafting retention letters, retention policies for our clients. I get involved in litigation hold letters very early on, so while that is not exactly the IP area, there is an overlap with IP, and so, as E-discovery has been kind of a hot bed, we do a lot of that at Thompson & Knight as well.

**AARON M. LEVINE, partner, Novak Druce + Quigg, Houston:** Novak Druce + Quigg is a full service intellectual property law firm. We concentrate on complex prosecution matters, patent reexaminations and IP litigation. Novak Druce is one of the leading patent reexamination firms in the country. Our patent reexamination practice is unique in that we have a group of thirty attorneys and

agents dedicated to litigation driven patent reexamination work. Our Firm was founded in 2004 and has experienced tremendous growth in that time. We are headquartered in Houston, with offices in San Francisco, Washington DC, and West Palm Beach, Florida. My practice is focused primarily on patent litigation and I also contribute to the patent reexamination practice. Novak Druce recently had a very good result in an ITC case for our client Avago Technologies. We have a number of other cases pending in other forums. I started my legal career in New York City, working for an IP boutique called Pennie & Edmonds. The firm has since been acquired by Jones Day. After Pennie, I moved to Washington DC to work for Howrey, and I joined Novak Druce + Quigg in 2008.

**ANDROVETT:** *Panelists, sometimes looking at one small tree does give us some understanding of the larger forest, and so I'd like your reaction to something. According to Dennis Crouch, who operates a blog called Patently-O, the past two weeks ranked Number 1 and Number 2 in terms of the most patents granted by the patent and trademark office in a single week in U.S. history. I know I'm dropping you right there in the middle of the pond with very little context, but what do you make of that?*

**LEVINE:** The general trend in patent application filings and grants has been steadily increasing over the past 30 years. I saw a statistic from the Patent Office where it was 165,000 patents were either granted or applied for in 2009, and 140,000 the year before. The average pendency in the Patent Office right now for an application is about three years, give or take four months on either side. If you count back three years, we're in 2007, so that's pre-credit crunch, pre-mortgage crisis, so we're seeing the crest of the wave of patent applications being granted pre Great Recession, before budgets were cut and before things tightened up.

**ANDROVETT:** *Who are these people or things filing for all of these patents?*

**LEVINE:** The general trend has been more filings by corporations, also more filings by entities from outside the United States. The U.S. continues to

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be the largest market in the world, and so people are still interested in protecting their ideas and inventions here.

**BRANDT:** I think that is right. We have to keep in mind that this is the combination of a process that started before companies were cutting their research and development. We went through a period of time, and probably are just now getting to the point where companies are going back and investing in research and development. That was one of the areas where they had to cut back. They were required to cut back during the tough economic times that we've been going through. But the patent applications that we're seeing issued now were before we hit that crunch, and so we have lots of companies that were still steeped heavily in research and development, in their R&D, at the time that these patent applications were applied for. So that kind of culminates. As the patents go through the process, we'll see a wave. I think we may very well see a dearth as well, as we're going to go through a period of time where we're not going to see as many patents coming out of the patent office because there won't be as many applied for in the last 18 months.

**KENNEDY:** I would add that these patents have been pending for three years or longer, and my reaction is that it's about time. We've been waiting a long time for the patent office to pick up, start issuing the patents again, and three years, I think, is too long for litigation.

**ANDROVETT:** Give me a snapshot into 2010. We've talked about the budgets decreasing, slashed, eliminated. There are some tentative signs now the economy is picking up. Will there be a lag before the R&D kicks in again and the patent process begins for a lot of companies? What are you seeing?

**BRANDT:** My clients are again starting to focus on increasing their attention to protecting their intellectual property rights, so they are starting to take their resources and turning them to improving their focus on research and development and protecting those intellectual property rights, either way, in prosecuting them in the courtroom,

and doing what they can to push them through the patent office — to the extent anyone has any control over that — and to focus on defending their products and in what they're doing.

**KENNEDY:** A year ago, Intel announced that it was investing — I forgot how many billion dollars in R&D, including a new investment in protecting its IP, so I don't see a huge difference in the amount of money being invested in R&D, even in the downturn. But now that we have a slight upturn, I would expect to see that trend continue with the middle-tier companies and smaller companies as well.

**AUDIENCE MEMBER:** *I've got a couple of comments. I've had clients, one in particular, came with an application made special, still pending four or five years in the office. Now, anybody who's ever done a petition to make special, knows that it should be one of the highest priorities on the examiner's desk. My comment is: That is not atypical of what I'm seeing out of their office. Four years is about what I'm seeing on pendency, and it seems to be getting worse. The other comment is that if you look at a graph of allowance rates over the last five years, you'll find that the allowance rate at the office has dropped 50 percent in the last five years. And what that says is two things: You're going to get a lot of 103s, and then you have to argue, so when you*

*talk to clients, you're having to tell them: You've got a good invention here, but I can guarantee you that you're not going to get a notice of allowance until we go through and battle it out with the patent office on the 103 rejection, because it's coming, whether it's deserved or not. So what are you-all's experiences with that? Because that's what I'm seeing out there on my end.*

**ANDROVETT:** *Just a quick moderator judicial notice here: I think just yesterday in the senate, there was a sort of micro patent reform bill that was offered that really will just provide maybe 15 percent more revenue for the patent trademark office, so react to what his comments are.*

**KENNEDY:** Yes, I've heard the exact same thing from my clients. I don't prosecute patents. I litigate them, but clients have that absolute frustration level with the U.S. Patent Office to the point where they sometimes wonder whether or not it's a good investment. That's a difficult decision for them to make.

**AUDIENCE MEMBER:** *You can't get venture capital if you're telling the venture capital people: Yeah, I might get a patent allowed in five years.*

**KENNEDY:** Absolutely. And that seems to be the issue. So I'm hoping that if the new Senate bill or the amendment to the Senate bill actually gets approved, there will be some more funding. We have a more patent-





friendly commissioner, and finally, the statistics are showing that the issuance of patents might be loosening up. Whether or not that continues is anybody's best guess, but I've heard that pain. I've felt that pain. Hopefully, we're on the opposite side of that, but it's hard to tell at this point.

**BRANDT:** I agree with Steve. I think that we have to hope that is what patent reform is doing, although it changes from day to day, you never know from one day to the next what's going to happen with patent reform because it seems to be constantly evolving until it actually happens, and it comes up and goes away. But I think that's right. I think it is a problem with trying to get investors, and it's certainly a problem for the small inventor. I mean, you really do have people out there that have good ideas that are inventing things and items and have ideas that really would benefit society if they could get a patent issued, but it is a frustrating process. And to get the money to back it or try to convince the inventor to hang in there through the process is a very frustrating situation.

**KENNEDY:** Mike, we've talked about patent reform at every one of these IP roundtables since I've been participating, over three years. And every time we come back, it still hasn't happened.

**LEVINE:** I agree with those comments. It's even worse if you look at the state of the patent board. The internal

board of appeals at the Patent Office is backed up years now, and it's not getting any better. In terms of patent reform, it seems like I've been talking about patent reform almost my whole career now, but it doesn't ever seem to happen. My prediction for 2010 is that we'll still be talking about patent reform. Then, of course, if the composition of Congress changes again, that will change legislative priorities and also the balance of power among the competing interest groups.

**ANDROVETT:** *Hopefully, this will serve as a predicate for the next chapter of our conversation, but we're all well beyond the old-fashioned notion of the inventor in the garage making the next great new idea. But what was inbedded in his question is a very interesting element, and that was talking about the investors. It just gets me to thinking: Has it all been this way that a company or an entity is measured not so much by what it outputs or the quality of its management staff? I'm interested in knowing how important is that for companies, large and small, and how does it guide your advice when they come to you and say: This is a big part of the package, and we've got to do all that we can to exploit and protect?*

**BRANDT:** It's a really complex question because it really does depend on the company and whether the company is in the business of manufacturing and has a solid manufacturing base



**Jane Politz Brandt** is a Partner and Co-Chair of the Intellectual Property Practice Group at Thompson & Knight. She serves on the firm's Management Committee and is also Chair of the firm's Information Management and E-Discovery Solutions Practice Group. Her practice includes licensing, patent validity and infringement, unfair competition, trademark and copyright, trade secret disputes, and document retention. She is a frequent speaker and writer on e-discovery and Internet related issues, such as record retention and preservation, Internet legislation, and privacy. She received her law degree, with honors, from Louisiana State University and her B.A. in Political Science, *summa cum laude*, from Louisiana State University in Shreveport. She is actively involved in several professional organizations, including the Dallas Bar Association, Dallas Bar Foundation, Texas Bar Foundation, and DRI-The Voice of the Defense Bar. Her recent awards include being named to The Best Lawyers in America® and Texas Super Lawyers®.

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and is producing a product that has a wide acceptance versus what we're seeing more and more of, and that is, companies are having their manufacturing done overseas, and that manufacturing is being, then, products are being shipped in from the Far East. And the companies here want to protect their intellectual property. They have patents in inventions that are being knocked off. I mean, there's no really nice way to say it, in the Far East, and they want to protect that intellectual property. So you see the companies coming back as we're hopefully coming out of the economic times we've been in. Although I probably am not as optimistic as some of you out there that we're quite there, but we do see companies, big medium and small, focusing on how much we invest in protecting our intellectual property and what it is going to cost us to do that. So that analysis is actually going on with my clients.

**KENNEDY:** Jane is right. Actually, we're representing both on the buy side, the venture capital group looking to make the investment, and in a different matter, the business organization looking to acquire venture capital. We're seeing a lot of questions such as: Can this simply be protected as a trade secret? If it's a software matter, can a copyright simply protect the code? Do we need to go out and get a patent application on the code? What are the risks in doing that? So there are a lot of tough questions about whether or not that protection is something that these business organizations really want to invest in, given the huge amount of time it takes to get the patent. And then the question arises as to whether or not the patent will be valid in litigation. A lot of questions emerge as to whether protecting it as a trade secret is appropriate or whether there are other means beyond the trade secrets to protect it. So if it's a software matter, maybe they've just simply registered the code.

**LEVINE:** I agree with that. We see a lot of people now thinking more about trade secrets as an alternative. My personal view is that a trade secret is a lot more difficult to manage and comply



and keep everything locked down. I'd also add that the venture capital business has changed so much over the last 10 years. Ten years ago, it was: "We'll get our patents, we'll start our business, and then we'll go public." Now that last statement will be more often than not: "... And then we get bought by Google." Some of these start-up companies aren't necessarily thinking about being a stand-alone entity as a long-term strategy the way they were 10 years ago.

**ANDROVETT:** So Aaron, you said that protecting the trade secret is maybe more difficult to manage. Can we talk a little bit about the pros and cons, the patent versus the trade secret protection? What would be a reason to go the trade secret route? Less expensive?

**LEVINE:** Well, theoretically, less expensive. Trade secrets have a different and maybe sometimes broader or sometimes narrower scope of what they can cover. For instance, things that are clearly not patentable can be protected by trade secret – namely the information content of databases and how information is stored can be a trade secret. One of the problems with trade secrets is that if you have a trade secret, you have to keep it secret; otherwise it's not protectable anymore. With people and information flowing the way that they do now, that's a more difficult thing to do than it was once upon a time. Also, if

you're trying to hold the heart of what you're doing technologically speaking as a trade secret, it also becomes really tricky to deal with other companies, to work with other people, because again, you have to keep everything secret and locked down.

**BRANDT:** I agree with Aaron. In dealing with our companies, when you go into the nondisclosure agreements in trying to share those trade secrets to come to do your business with the other company, you're bringing more people into the loop. And as fast as things spread, as we all know, on the Internet today, all you need is one disgruntled person, employee, or competitor, or customer, to take that information and proliferate it very quickly. And it doesn't matter how fast you want to pull it down. Once it's out there, it's hard to get it back, so that's going the trade secret route. Yes, it is cheaper, but it's also very hard to manage because you have to manage the people, and it's real easy for one disgruntled person to get in that process, and people do bad things.

**KENNEDY:** That's absolutely correct. I just tried a case for a client where it had done everything it needed to do to protect its intellectual property, its engineering software. They registered the code and locked down the trade secrets. A disgruntled employee left the company and got hired by a competitor. He provided trade secrets and

the engineering code to that company in violation of his employment agreement, in violation of company policies, and he lied on his exit interview that he had given everything back. So yes, bad people do bad things. After a three-week trial, we won on the trade secret issue and on the copyright infringement claim, \$4.6 million. That's on appeal, along with the Digital Millennium Copyright Act questions. But you're right, the question of protecting the trade secret is one that's always in flux, and can you persuade the jury that you did everything you needed to do to protect that intellectual property? And what do you do to protect it? But on the other hand, I think we have to acknowledge that there is a disparity. It's the haves versus the have-nots. The large companies, the General Electrics of the world, the TIs, will continue to invest in patents, regardless of the cost. They will require patent prosecutors to take lower and lower rates so they can continue to generate patents as fast as they can in line with a budget. Meanwhile, the mid-level companies and the smaller companies just don't have the budgets for that. They can't afford it. So they're turning to the only other alternatives, which include trade secrets and other means.

**LEVINE:** One last note on trade secrets. You are also dealing with state laws, so you're also theoretically dealing with 50 different legal regimes when you're trying to hold something as a trade secret. And you have facilities and people all across the country, and that's another complication. When people are thinking about going and holding something as a trade secret they don't necessarily give a lot of forethought to it can be a problem later, because there are differences in, say, California's trade secret laws and how you can exclude someone from competing with you if they left your company for another company, versus how Florida handles it. Those are definitely pitfalls to watch for.

**ANDROVETT:** *Referring back to the protecting of patents and patent infringement, over the last couple of years, there have been some real eye-popping verdicts*

*coming out of the Eastern District of Texas. I'm wondering: Has that been a factor in how corporations view the protection or the enforcement of their intellectual property, or is it dismissed at the corporate level as just so much litigation hijinks in a renegade district?*

**KENNEDY:** I don't think that's the case. I think that I'm seeing patent owners look to see first if they can qualify for jurisdiction in the Eastern District of Texas before they look anywhere else. And there's been a lot of new case law that many of you are aware of that deal with that specific issue on whether or not you can hold venue or hold jurisdiction in the Eastern District of Texas. But from what I'm seeing, they're looking for ways to pin down that Eastern District of Texas venue, and if not, then they look at other possible jurisdictions, Northern District of California or Eastern District of Virginia as well.

**BRANDT:** I think that Steve is right. I don't think that companies are thinking that the huge verdicts coming out of the Eastern District are aberrations. I think they're trying to use them to the extent that they're trying to protect their intellectual property rights. They're looking at ways to take advantage of that. The case that Steve is referencing is *TS Tech*, which was a mandamus that went to the Federal Circuit, and it came down with the factors that the courts are going to consider in keeping venue in the Eastern District. Before cases are filed in the Eastern District, I see clients doing an analysis of: Can we keep venue in the Eastern District in light of *TS Tech*, and how the Eastern District judges are interpreting and treating *TS Tech* from the outside. Or the flip: As soon as a client is sued in the Eastern District, can we get out of the Eastern District in light of *TS Tech* and the weighing of the public and private factors that that the judges in the Eastern District are looking at? And what we do see is that while the number of mandamuses have slowed down coming out of the Eastern District, there are still mandamuses of the holding of venue in the Eastern District, and we are still seeing



**Stephen A. Kennedy**, shareholder of Kennedy, Clark and Williams, currently represents clients in copyright litigation involving engineering software, visual works (including photographs and sculptures), copyright misuse, and violation of the anti-circumvention provisions of the Digital Millennium Copyright Act. On the patent side, he represents clients in infringement actions, patent-antitrust and valuation matters for licensing transactions. Other active cases involve theft of trade secrets, covenants not to compete, breach of confidentiality agreements and computer fraud. Kennedy has specific experience in litigating patent infringement actions involving medical devices, lasers, semiconductors, photography equipment and chemical compounds, trademark infringement, patent antitrust actions involving Handgards and Walker Process claims, rights to a publication licensing agreement, right of publicity cases and Lanham Act cases. Kennedy has represented a number of multinational and regional corporations in the development and execution of appropriate litigation strategies and IP transactions. E-mail him at [skennedy@kcwfirm.com](mailto:skennedy@kcwfirm.com).



the Federal Circuit in some instances say: Yes, you were right, Eastern District; or No, you have to transfer that case. It is a factor that the companies are looking at.

**ANDROVETT:** *Is there any way to determine clarity in the wake of *TS Tech and Volkswagen*? I've read a few of the decisions where Judge Ward has, in particular, been reduced to taking out a ruler and on a map pointing out that the mileage distance between the corporate headquarters in the Eastern District is not much different than the proposed change in venue. As we stand here today, do we know what the Eastern District or the Federal Circuit will decide when posed the question: This doesn't belong in the Eastern District, it belongs elsewhere?*

**BRANDT:** I think that you can advise your clients with some degree of comfort or predictability, that if there is no connection from the plaintiff or the defendant to Texas, it's likely to be transferred to another venue. The Eastern District judges may keep it in the Eastern District if there is a connection to Texas. There are cases where the connection was not necessarily to the Eastern District, but it was a connection to Texas, and in some instances, they're keeping venue. The judges are not dissuaded by the fact that the plaintiffs are establishing a presence in the Eastern District for purposes of keeping venue. If you are a plaintiff, a non-practicing entity, and you establish a beachhead in

the Eastern District of Texas and you put some records in the Eastern District of Texas, we're seeing cases where that is enough, and they will keep the cases in the Eastern District of Texas. We are also seeing, actually more recently, if the judges in the Eastern District have had some experience with the patent or experience with the parties, even if the other venue factors would lean in favor of another forum, if they have experience, they'll lean on judicial economy, and they'll say: For purposes of judicial economy, we will keep the case in the Eastern District. So I think you can look at the cases that are coming out of the Eastern District and how the Federal Circuit is treating the mandamuses, and you can handicap it for your client on whether or not you think the case will stay in the Eastern District. I don't think any of the judges now are particularly offended if you bring the venue motion, and I think that on the defense side, if you think it's a close call, it's a battle worth waging.

**KENNEDY:** The mere fact that the Federal Circuit in the *TS Tech* case granted a mandamus on this very issue, I think, sends a clear message that the Federal Circuit is taking a very careful look at what is obviously forum shopping. In this case, they found it was a patently erroneous result in holding venue in the Eastern District of Texas. So I think the Federal Circuit recognizes that people are looking for a way to get into the Eastern District of Texas

because of the large jury verdicts and they're trying to steer that court specifically into a more strict construction of what is proper jurisdiction. However, as Jane mentioned, the non-practicing entities — I guess that's the new buzz words to use for the patent troll.

**BRANDT:** He said it. I didn't. (Audience laughs.)

**KENNEDY:** Well, what they are doing is setting up these beachheads with holding companies organized in the Eastern District to create jurisdiction. We'll see in the future if that holds.

**LEVINE:** I agree. For a while, I think we're going to see a number of cases kicked, but I think as patent owners adapt, as non-practicing entities adapt, we'll see that pendulum swing back. I agree that you can't predict with certainty what's going to happen, but I think there are certain factors that you can rely on to handicap it as Jane was saying. Obviously, the bigger your presence in Texas, the more likely it is you're going to be stuck there, whether you like it or not. If the patent owner also has strong connections to Texas, a defendant is more likely than not going to be stuck litigating in the Eastern District.

**BRANDT:** It might be helpful because, as you said at the beginning, probably everybody in this room knows the factors that the courts are looking at, but our readers down the road may not know the factors, so it may be helpful if I could just read off the factors that the *TS Tech* court expects the courts to look at. And these are actually the factors that are being weighed by the judges in the Eastern District. The private factors that are looked at — there are four of them, and they come first from the *Volkswagen* case, which was a case that went to the Fifth Circuit, and it was a venue transfer case of an Eastern District case, not a patent case, and then picked up in *TS Tech*. The private factors are: The relative ease of access to sources of proof; the ability of compulsory process to secure the attendance of witnesses; the cost of attendance for willing witnesses; and all other practical problems that may make trial easy, expeditious, and inexpensive. The public factors that have to be weighed are: The administrative difficulties flowing

from court congestion; the local interest in having localized interests decided at home; the familiarity of the forum with the law that will govern the case; and the avoidance of unnecessary problems of conflict of laws and of the application of foreign law. So those are the factors that the courts are looking at in the Eastern District and the mandamus to the Federal Circuit in deciding whether to keep venue. We're focusing, of course, on the Eastern District, but this is what they're doing across the board.

**ANDROVETT:** *Are you ever approached by a company — this is sort of looking at it from the other side of the glass — that will say to you: We've got a thriving, successful company here, there's a lot of processes, perhaps a lot of technology that we employ, but we want to make sure we are not accused of being infringers? Is there a methodology for lawyers to advise their clients about how you stay out of the Eastern District and get sued, or is the ubiquity of information and technology such that there's just no sure-fire way to avoid being accused of stealing somebody else's ideas?*

**KENNEDY:** Well, you walk a very thin line because if you do such an assessment of someone's technology and conclude you are infringing, you then have actual knowledge of it.

**BRANDT:** And you're on notice.

**KENNEDY:** And on notice. And if you continue, that could result in enhanced damages. So there's a fine line in that regard. I see it more from: What do we have in the way of intellectual property that can be protected and how should it be protected? When somebody is accused of patent infringement, of course, they may seek an opinion from counsel, qualified counsel, to provide a statement as to whether or not they're infringing or whether or not the patent is valid. You would tend to see a question of whether a specific patent is valid or invalid, rather than the issue of infringement until such time that a notice letter is received.

**ANDROVETT:** *I can imagine where this would get pretty delicate. Say you have business affiliations with other similar-type companies and someone comes to the CEO and says: That company has stolen our stuff. What's the next step? Do*

*you pick up the phone and call them and go: Oh, surely this is a misunderstanding. You're inappropriately using our patent, or do you immediately go to the courthouse?*

**BRANDT:** You don't know. It really kind of depends on the company and it depends on the situation. The bottom line is going to the courthouse is expensive. So depending on the relationship, you may get farther along by picking up the phone and saying to your client: What do you have to lose in trying to pick the phone up, make the call, or schedule a meeting, as your first step, to see if you can nip it in the bud, as it were. I would probably advise my client, depending on the relationship between the two companies, to take that step first, because that is really the more rational approach. Going to the courthouse without trying to resolve it ahead of time is just a really expensive way to do things. And I know we're a room full of lawyers, and I know that this is what we do for a living, but these are businesses with business concerns and business objectives and the bottom line is: It is the bottom line. It's money. And so the best and the most expeditious way to solve the problem is always in the best interest of our clients, and so personally, I would explore with my client: Well, what kind of relationship do you have? Is there any way that you think you could broker a resolution with this without going to the courthouse or short of the courthouse? Because once you get involved in litigation, you, number one, lose control. Somebody else is going to be deciding your fate. And you may be actually putting your intellectual property at risk. So you may be much better off by trying to resolve this without going to the courthouse, than trying to resolve it in the courthouse.

**KENNEDY:** But as soon as I receive Jane's nice letter telling me that she thinks my client is infringing her client's patent software, the first thing I'm going to do is talk to my client and make an assessment of the claim. And one of the things I may want to do is head her off at the pass and go file a declaratory judgment action against her client in the District of Kansas, Topeka



Aaron M. Levine's practice focuses on patent litigation, reexaminations and client counseling. Levine has litigated patents involving a wide array of technologies and products including: interactive voice telephony, sports equipment, automotive components, medical devices and orthopedic implants, supply chain management software, GPS and other wireless location based services, point of interest software, wireless electronic e-mail services, and Voice over Internet Protocol Services. Levine's client counseling has also included matters involving orthopedic implants and video games. He has assisted clients in developing legal and technical strategies relating to patent law, antitrust law, RICO claims, trade secret law, unfair competition as well as contract law and licensing. Prior to his law career, Levine worked at Department of Energy - Sandia National Laboratories as a technical research assistant for the Combustion Research Division and the Advanced Systems Engineering Division.

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Division, so that I'm not going to see her in the Eastern District of Texas, the Northern District of California or the Eastern District of Virginia. So the problem that you have in that situation is whether you are signing up for a declaratory judgment action. And many times, the answer is yes.

**LEVINE:** To expand on that, there was a recent case called *Innovative Therapies*, and that's testing the outer limits of the *MedImmune* case on declaratory judgment. While the Federal Circuit held that there was no declaratory judgment jurisdiction in *Innovative Therapies*, if you read the facts of the case, it's pretty entertaining on how far these guys went to try to create declaratory judgment jurisdiction — how they tried to game the system. In the end, the *Innovative Therapies* case becomes the exception that proves the rule — once you do send that letter, you are potentially signing up for litigation. The other thing I would add, to expand on what Jane was saying, is that competitor versus competitor patent infringement suits are comparatively rare. The reason for that is they have their lawyers, you have your lawyers; they have their patents and you have your patents. When competitors, especially big competitors, go to war, it can turn into Armageddon. For example, a few years back, you had the *Broadcom/Qualcomm* case. So if you're targeting a competitor, one that's sophisticated and has its own patents, you have to be really careful about what you're getting into, because you will lose control of the situation. You won't be able to just drop it if things aren't going well for you, and you may face not only putting your intellectual property at risk, but you may be at risk too with your products.

**KENNEDY:** One method to avoid a declaratory judgment in an effort to peacefully resolve the issue is to first enter into the equivalent of a nondisclosure agreement by saying: We'd like to talk to you about technology issues. We'd like to have a nondisclosure agreement and an agreement not to sue each other while we discuss licensing issues. And if you proceed under that sort of agreement, you're not

threatening infringement. I've done that successfully in the past, but again, we're walking a very thin line.

**ANDROVETT:** *Aaron, in your introduction, you talked about your personal involvement, and the focus of your firm on patent reexaminations. Can you talk a little bit about how that fits into this overall mosaic?*

**LEVINE:** Ex parte reexaminations have been around for a long time; inter partes reexaminations are a more recent development. In the last five years, we've seen a really tremendous growth in the number of reexaminations that have been filed. I think people are finally realizing the advantages of getting into the reexamination process. You can think of it as an extra summary judgment motion, if you will. Generally speaking, reexaminations have had a pretty good track record in terms of killing claims, which is obviously the best result that you can have. They have a good track record in terms of getting claims amended. One of the benefits of getting a claim amended is once the reexamination certificate issues you've basically reset the damages clock to the date that the reexamination certificate issues. So in certain situations, that can be a tremendous advantage to you in litigation. But one way that reexaminations really can give you a very big advantage as a defendant in patent infringement litigation is on claim construction issues. With respect to claim construction, it's key to file your

reexamination early, particularly in relatively quick dockets like the Eastern District of Texas or the Eastern District of Virginia, where you're going to get a lot of information from both sides and will be exchanging that information early on in the case. The earlier you can get your reexamination on file, the earlier you can get the patent owner on the record about the prior art and about the proper construction of the claims. The real magic in reexamination is the differing standards of claim construction used by the Office and by the courts. The courts, in litigation, apply a narrower claim construction standard. The Patent Office uses what's called the "broadest reasonable construction." Further, unlike litigation, a patent in reexamination has no presumption of validity. So if you do things right, you can really put the patent owner in a bind, where they want to argue in court that the claims are broad and sort of lean against the presumption of validity to carry the day against the prior art. But in the Patent Office, their constructions are going to be broad, and they don't have that presumption to lean on in front of the Patent Office. So you get them in a place where they're forced to talk out of both sides of their mouth in terms of what the claims mean, and that creates all sorts of opportunities for summary judgment or even in some instances new defenses in terms of inequitable conduct. It really puts a lot of pressure on the patent owner to be very





careful about how they're construing claims in both forums. Also, it's a way to put pressure on the patent owner when you're the defendant as well.

**BRANDT:** I think there are some additional issues that you want to think about in addition to what Aaron is saying when you're dealing with a reexam. And in addition to what Aaron is saying, what we need to keep in mind is: As they're going back through the reexamination process, that's an evolving, intrinsic record which can be very helpful for claim construction purposes when you're defending in the district court. And it is evolving as they take different positions. Also, you always have the concept of: Do I now go to the district court once the patent has been placed in reexam, and do I ask the district court to stay the district court action until the patent office decides what to do? And different courts in different jurisdictions handle those requests for stay, ex parte one way or inter parte another way. If the plaintiff asks for it, I understand they usually get it. I don't see too many of those. Usually it's in an ex parte practice where we're seeing it, with the defendants going in

and asking for a stay. In the Eastern District, a number of the judges will enter what is known as the *Antor* stay, and that is if the prior art was given to the patent office, then once the patent office considers it the court says, "I'll give you a stay, but I don't want to see that prior art being used in the court." And so we're seeing a lot of that. But what we're also seeing is if the defendant is making the decision that they would not want the *Antor* stay, if we see claims rejected in initial rejection, you can go back to the court and the courts are open to reconsidering the stay at that point, because they don't want to go through the process twice. Again,

they also realize that the record, at that point, is evolving, that the claims are changing, that there's going to be more examination going on, and whether or not this patent is going to arise from the patent office becomes more of a question, and do we want to use the limited judicial resources we have to do this parallel track. So it is a race, and there are stays along the way, and there are different times where you can ask the court to stay or make that judgment as to whether or not it's in your client's best interest to seek that stay, and sometimes it's beneficial.

**LEVINE:** One other thing that we've been doing for a number of our clients pretty effectively is using reexamination as a tool to promote settlement. Particularly when you're dealing with a non-practicing entity, their only asset is their patents, and if you can make a credible case that you're going to put those assets at serious jeopardy in the Patent Office that can cause them to come to their senses and become more reasonable than they might have otherwise been.

**BRANDT:** Actually, it does happen, because I had a partner two weeks ago present a piece of prior art to a non-



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practicing entity who had sued our client and said: Look, this is prior art. You want to go down this road, and we're going to put this patent reexam. They literally dismissed all of the defendants in the case.

**KENNEDY:** For those who are not familiar with reexamination proceedings or just have a general knowledge of IP law, the whole purpose of the reexamination procedure, in general, is to determine the true scope of a patent based on art that may not have been available to the patent prosecutor at the time he issued the patent. What we're talking about today is a litigation tool, with a completely different objective. Reexam was not intended for litigation strategy, but because that procedure is available, attorneys will use it to gain an advantage in litigation.

**ANDROVETT:** *Let's talk about another aspect of this, and that is in the global economy, when is it appropriate and what are the rules of the road for taking an issue to the International Trade Commission?*

**KENNEDY:** As often as possible.

**ANDROVETT:** *And that's why?*

**BRANDT:** I think right now, because of the amount of time that it takes to get a case through the district courts, companies are very serious as seeing this as the sledgehammer they need to protect their intellectual property rights. I

think we've seen an enormous increase in the use of the ITC. It is a very scary place to be with as much product as we have being imported into the United States. Importation is a privilege. It's not a right. So the rules are different in the ITC. How fast it goes, how fast it moves depends on your ALJ. It is an expensive forum, there is no question, and your clients need to be prepared for that, or for those of you who are in companies need to understand it is an expensive forum, but it moves very fast. It's another tool to bring people to the settlement table really fast, because decisions are being made at a rapid pace. Everything consumes your life, 24/7, and the bills mount fast for the client because you have to do everything on an expedited basis. But that threat of keeping your product out of the country or keeping your customer's product out of the country, which may be even more of a threat if what you're doing is a piece, a component of what's going into your customer's product, that's a huge business threat for big companies, and for even medium-sized companies, and I think it is being used a lot.

**LEVINE:** I think in particular, in the wake of *eBay*, where the probability of obtaining an injunction from the court is a lot less than it used to be five or six

years ago, more people are looking to the ITC as the one place where you can effectively obtain an injunction. In the ITC, for people who aren't that familiar with it, damages are not awarded. Instead an "exclusion order" is issued, where the government will direct customs to stop infringing products from coming in through a port of entry or otherwise entering the country. So depending on the industry, the ITC can be your only realistic hope of obtaining an injunction if that's what you're after. Obviously, this is something that impacts some industries more than others: the semiconductor industry, for example, is an industry where most of those products are manufactured overseas and perhaps are imported and assembled in the United States. In such an industry the ITC is a fast, powerful tool.

**KENNEDY:** Let's define "fast" for a moment. The International Trade Commission has specific rules, and if you fall under one rule or the other, you're either on an 18-month track to get a result or a 12-month track. For example, the 18-month track means the ITC has to affirm the administrative law judge within that 18 months. So you've got to deduct 30 days to 60 days from the 18 months for that review. The administrative law judge is going to need 30 to 60 days to make his decision after trial. If you subtract four months from the 18, that gives you somewhere around a year to get the entire case through discovery and complete the trial. Whereas, many district courts take three to five years, plus an appeal. Conversely, we are talking trial at the ITC within one year. And if you're on the faster track, you're talking within six months. The International Trade Commission has been seeing an increased number of these filings. One other important point for those who have not been before the ITC, you actually have three interested parties, three sets of lawyers: The plaintiff, so to speak; the defendant, so to speak; and then the staff. The staff protects the public interest in the patent — in the issue of the infringing activity — and they will take a position, either siding with the plaintiff or the defendant or some middle ground, on whether the





patents are valid or infringed. You have another party possibly opposing you in these proceedings under the policy of protecting the public interest. So there are a lot of intricate details at the ITC that you need to be aware of in advance before you go down that road.

**BRANDT:** And also it becomes interesting because then, after the Commission issues its final determination and the party decides to take an appeal, whether it be the complainant, which would be the plaintiff, or the respondent, which we normally talk about as defendant. The appeal is between the appellant, either the complainant or the respondent, and the ITC. So the real party in interest in protecting what was done by the Commission has to intervene. And you become an intervenor. And then you, as an intervenor, end up splitting time with the lawyers at the Commission. And when Steve talks about “staff,” we’re talking about lawyers that work for the ITC, the Commission. So it’s a very interesting legal mechanism. And he’s right; they have their own set of rules. They are constantly changing, so you’ve got to keep up with what’s going on in the codified regulations, code of federal regulations, because ITC rules change all the time. The briefing periods are very short. The discovery periods are 10 days. You can issue notices for U.S. depositions in 10 days. Overseas, 14 days. And that’s all considered reasonable. So it is a very fast-moving train.

**LEVINE:** Yes. It’s not something you

would ever want to, even as a complainant, contemplate lightly. If you’re going to file a complaint with the ITC, you’re going to want to have done all of your homework up front. You’re going to want to retain your experts, get your discovery in order and get all your ducks in a row before you pull that trigger, because otherwise you’re going to be behind the eight ball with the respondent, and that’s the opposite of what you want to have happen. You want to have all the pressure on the respondent.

**ANDROVETT:** *What are the courts doing about the issue of damages? The inventor decides that his patent is being infringed by an ongoing concern. I’m guessing there’s lost profits, and then there’s this notion of: Well, that’s my patent. I should get some reasonable royalty. And then I’m mindful of the last time or maybe the previous time we had an intellectual property panel, one of our colleagues, Marty Rose, described the situation. He said: You go into trial and you have two experts. One expert says the damage is a thousand bucks, and the other expert says the damage is a gazillion bucks, and I remember Marty saying: Somebody has to stop the madness. And I’m wondering: What’s happening in this area of damages? Because, boy, going back to some of those verdicts, they are eye-poppers.*

**LEVINE:** To set the stage, in patent cases there are two options for damages. First is lost profits. And while there’s a lot of battle of the experts there, there’s also a lot of data. If a patent owner is selling a product, they have costs of goods sold, they have

revenue, they have profits, and the accounting process can sort of take all that into account. It may not always be done perfectly, but reasonably. But if you cannot qualify for lost profits, say, for example, because you’re not a practicing entity and you don’t have profits per se, the statute sets forth that “reasonable royalties” are the floor for damages. The reasonable royalty cases are in large part governed by an old case called *Georgia-Pacific*, which sets out 13 different factors that are somewhat confusing, somewhat overlapping, but 13 factors that are supposed to be taken into account. However, the really important take aways are that the factors address the so-called hypothetical negotiation between the patent holder and the defendant. The most important factors are what I shorthand as “comparable licenses.” Recently, the Federal Circuit issued a ruling in the *ResQNet v. Lanza* case that I think is going to cause a lot of confusion and overturn a lot of preconceived notions about how that *Georgia-Pacific* analysis is supposed to take place. We can already see in the Eastern District some of the results of that in the aftermath. The *ResQNet* case follows another recent case called *Lucent*. In both cases, the Federal Circuit is examining licenses that the experts in the case were relying upon and analyzing in their expert reports. And in both cases, they said: it’s inappropriate for you to rely on this license or that license. In reviewing



the *Georgia-Pacific* factors, it can be a bit vague and sometimes involve some hand-waving: This factor bumps up the royalties, this factor bumps them down, and this factor bumps it sideways, and it's often an analysis that has a real problem in terms of a lack of good data to rely on. As a result, you can see people rely on fudge-factors and rules of thumb on both sides. The Federal Circuit is obviously concerned about this issue, but I'm not sure that the *ResQNet* case is the solution to that problem. To provide a bit of background on the case, there were seven licenses that were considered by the expert. Two of those licenses were licenses that were as a result of litigation. Five of those licenses were what the majority called the re-bundled licenses, and basically those were contracts for the sale of software and know-how, and it appears they weren't directly listing the patents in the suit. According to the dissent, there was no dispute as to whether the technology was the same for both sets of licenses. The majority essentially held that the expert should not have relied the five "re-bundled licenses" that don't expressly list the patents, but that the expert should have only relied on the two litigation-driven licenses.

**ANDROVETT:** *And was there sort of a larger guidance as it related to damages?*

**LEVINE:** What's really interesting is if you rewind the clock five years and polled people who worked in damages or IP litigation, 90 percent of those people probably would have told you that you can rely on the five licenses that were

excluded, but you shouldn't rely on the two licenses that they permitted. We are already seeing the results of that in the Eastern District of Texas. Only days after the *ResQNet* case came out, there were two significant rulings that came out in the Eastern District — the *Data Treasury* order, a *Tyco Healthcare* order. One by Judge Ward and the other by Judge Folsom. Both are saying: go ahead and rely on those litigation-driven licenses. What is even more interesting is that Judge Ward's decision in the *Tyco* case also says that the related settlement agreement, where it exists, may be central to the fact-finder's determination of damages using a hypothetical negotiation analysis. So they're now going to go and pull back the curtain of past settlement agreements, ongoing settlement agreements, and that's going to create a lot of interesting dynamics now in these big cases with non-practicing entities filing suit against several dozens, or even in some cases, hundreds of defendants.

**KENNEDY:** The takeaway from the *Lucent* case, which involved Microsoft, the *RescueNet* case, and then the *i4i* case, which also involved Microsoft, is that the standard for *Georgia-Pacific* has not changed. However, the age-old principle of "who is your expert?" has been reaffirmed. Your expert witness needs to be somebody who understands the technology and has experience testifying and understands these cases so that he does not make the same kind of mistakes that the experts made in some of these cases that we're talking about today.

**ANDROVETT:** *This is unfair to you, because I'm going to ask you a big, broad*

*breadbasket question. Two parts: One, in the non-patent area, is there some key or a key IP law case that is coming up? And then also, talk a little bit about maybe some of the emerging issues that may arise in IP law as you see it over the next 5 to 10 years.*

**KENNEDY:** Copyright law is the new frontier, so to speak. With the Internet, you can now download TV shows, movies, engineering software, etc. very easily — and the Digital Millennium Copyright Act is now going to be getting a lot more attention in our courts. There's an appeal at the Fifth Circuit Court of Appeals which will define what the Digital Millennium Copyright Act is and its breadth, and that's been pending now for about two years. We should see a definitive decision from the Fifth Circuit on the meaning of the Digital Millennium Copyright Act and the anticircumvention provisions in the statute. So I think computer fraud and the Digital Millennium Copyright Act are going to be two new trends that you haven't seen before in the immediate future.

**LEVINE:** Over the next few years I think you're going to see a trend towards reexamination, where basically every case is going to spawn at least one wave of reexaminations. I also think people are going to find ways to use accelerated prosecution as a weapon in litigation contexts. The future for IP is going to depend on the economy and what happens with patent reform, whether it ever gets off the ground.

**BRANDT:** And I skillfully defer to both of these gentlemen because I am a terrible crystal ball gazer, and we're out of time. ❖

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