
THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Proskauer Rose LLP



STEVEN M. BAUER, a Partner at Proskauer Rose LLP, has over 20 years of experience concentrating exclusively on complex technology-related contentious matters, such as litigations, arbitrations, mediations and negotiations involving patents, trade secrets, copyrights, trademarks, and licenses, both nationally and internationally. Mr. Bauer has been lead trial counsel in matters involving surgical and other medical devices; genetic and bio-molecular science; high-energy plasma systems; telecommunications, RFID, VoIP and SONET switching, voice recognition, and cable technology; nanotechnology; polymer chemistry; high temperature superconductors; encryption, digital data compression and error correction techniques; and financial software and business method processes. He advises clients in all of the technologies typically found in the New England technology corridor. Mr. Bauer has been selected as one of the leading attorneys in his field in the 2004, 2005, and 2006 editions of Chambers USA — America's Leading Business Lawyers.

(ZCL303) TWST: Steven, would you tell us about Proskauer Rose's IP practice?

Mr. Bauer: Proskauer Rose is an international law firm with its largest offices in New York, Boston, and Los Angeles. The firm has, as one of its major practice areas, the representation of companies where intellectual property is of paramount importance. We have large copyright, false advertising, and trademark practices in New York and Los Angeles, and most of our patent litigators are based in New York, Boston, and Washington, DC.

TWST: What kinds of clients do you represent?

Mr. Bauer: I'm resident in the Boston area and our group here is now about 25 patent attorneys strong. Our Boston-based client list really mirrors the Boston technology corridor. So we do a lot of software, a lot of technology and communications work, and we have a growing biotech practice.

TWST: To what extent do your practitioners have either working or educational experience as engineers or life science practitioners?

Mr. Bauer: I think one of the things that distinguishes us from a lot of other patent litigation practices is that just about everyone in our group is a registered patent attorney as well as a patent litigator. In fact, about half of our group has advanced technical degrees, and we now have half a dozen with PhDs.

TWST: To what extent do you and your practitioners have industry experience working for the kind of companies you represent?

Mr. Bauer: My experience is that few patent lawyers go right to law school after engineering school. So most of the people here went to work right after engineering school. I, for example, had about two years of work experience as an electrical engineer before

going to law school. Just about everyone here has had at least two or three years of working experience as engineers or scientists.

TWST: What do you and your colleagues do to stay abreast of the changes going on in engineering and biotechnology?

Mr. Bauer: There's no easier way to do it than to be a patent lawyer in the Boston area, because in the areas we practice in, all of our clients are absolutely state of the art. So, for example, when we're representing biotech companies, we're representing the companies coming right out of MIT and Harvard with the very newest technologies. Most of our Boston area companies are really considered the industry leaders in their areas.

TWST: Do you see any trends in the kinds of issues that your clients are bringing to you?

Mr. Bauer: I think that technology companies, and certainly emerging technology companies, are becoming more aware of their ability to enforce their intellectual property. I think, traditionally, there was a sense that they got their patents for defensive purposes only. That is, they would just sit back and collect IP to use if somebody came after them. Over the last few years, you've seen a lot of technology companies dipping in, or diving into, their IP portfolios to see how they can use them to generate revenue.

TWST: In terms of the offensive strategies, are there any new strategies you have to help your clients monetize their IP other than standard licensing agreements — possibly securitization of IP?

Mr. Bauer: People are looking at IP as another asset that they can invest in and monetize. Also, our firm is very involved in forming and running patent pools. One of our partners in New York, Ken Rubenstein, represents about 20 patent pools. I think you're going to see a lot more of that kind of effort to generate revenue.

TWST: Would you explain what you mean when you say patent pools?

Mr. Bauer: A patent pool is where a group of companies in the industry put their key patents into a single legal entity that will then open up those patents for licensing on reasonable and non-discriminatory terms. That way, anybody can come in and take a license on the same terms. Those that put the patents into the pool will share in some way or other in the revenue that goes into the pool.

TWST: So even if a license agreement is struck for patent A, but company B did not own that IP, would company B still share in that revenue?

Mr. Bauer: Generally speaking, the patent pool licenses all the patents in the pool for one lump sum and the revenue is divided up based on some ranking of the value of the patents within the pool. Often it's just based on the number of patents within the pool.

TWST: Is there any kind of antitrust concern with that?

Mr. Bauer: There are a lot of antitrust concerns in the sense that you need to be careful not to run afoul of the antitrust laws. But this is a practice that is actually considered a pro competitive way to license technology. That's why the patents need to be made available on reasonable and non-discriminatory terms. You can't keep people

out. That would be the antitrust concern — trying to monopolize the patents. Instead of monopolizing technology, this is a way to get the patents out so that everyone can use them.

TWST: Are there any other offensive strategies that you see your clients taking?

Mr. Bauer: Clients are largely looking at the standard strategies of understanding what they have in their patent portfolio and then looking for ways to license them in the most efficient way possible.

TWST: Let's talk about the risks or threats that some of your clients may feel from non-manufacturing entities that send out letters demanding licenses for the use of what the non-operating companies believe to be infringed IP.

Mr. Bauer: I think it's the number one issue that the clients I deal with are facing right now. My clients largely are all state of the art and are industry leaders, and they are not particularly worried about their primary competitors charging them with patent infringement, but these clients are getting letters, all the time right now, from these licensing operations. It becomes a big issue. They spend a lot of money defending against these cases, largely because the license fees being requested are entirely out of proportion with the patented invention. In many instances, many people believe that these patents are just being over-enforced.

TWST: My understanding is that the Supreme Court is going to consider some of these cases.

Mr. Bauer: It already has considered many of these cases. The big Supreme Court case that recently came down was the eBay case, in which the Supreme Court said that it is okay for the district courts to decide, within their discretion, whether to grant injunctions to these licensing companies. That changes the landscape because now, many people are going to be more willing to challenge and defend against patents if the only issue is money and not the risk of an injunction.

TWST: The Supreme Court said that the district courts can issue these injunctions within their parameters. What does that mean? What are some of the limitations the district courts have to issuing these injunctions?

Mr. Bauer: Before the Supreme Court case, the general view was that an injunction would follow if the district court found infringement. Now the district court needs to look to see whether issuing an injunction is fair and reasonable given the circumstances. That is, is the situation one where there will be irreparable harm to the patent owner if an injunction isn't issued, or can the patent owner be made whole if they're paid cash. So, for companies that are in the business of licensing, I think that you're going to start finding that the district courts are going to say, "if you're in the business of licensing and you want money, we'll give you money and that's all there should be." Notably, the Supreme Court expressly noted that some licensing operations, such as universities, may still be entitled to injunctions.

TWST: Are the courts allowed to consider the harm that would be caused to customers of the infringer? For example, in the RIM case, if it were demanded that RIM cease its BlackBerry, a lot of customers would be inconvenienced.

Mr. Bauer: I think that's going to be a big issue right now. I think the courts are free to consider the benefits and risks of granting injunctions, and if the sense is that an injunction is going to completely disrupt somebody's business on the one hand, and on the other hand, the patent owner has made it clear that money is sufficient, I think you're going to find courts a lot less willing to grant injunctions.

TWST: What other strategies do you recommend to clients when they're confronted with demands from non-manufacturing companies?

Mr. Bauer: The strategy always depends on the company's goal, and every company has a different goal. If the company's goal is to absolutely minimize risk and cost, there's a certain strategy. If a company's goal is to send a message to the industry that it's not going to be an easy target, there's a very different strategy. What we're finding is that many companies have gotten so many of these letters now, they are just much less willing to settle at the very beginning and are ready to defend a lot further. They may still settle prior to trial, and they may still make the right financial decision, which may be the wrong decision regarding the patent's validity. But I think you're going to find people fighting it a lot longer than they have in the past.

TWST: Are any industry groups coordinating strategies to contend with these non-operating companies, such as the National Association of Manufacturers and SEMI in the semiconductor industry?

Mr. Bauer: I think that the issues and the views are so widespread that it's very hard to get an industry group that would actually be on board in one direction or the other, because in every industry there are small companies that want to enforce patents and there are big companies that don't want to be the targets.

TWST: But there's a difference between being a small company that manufactures something and being a licensing company that doesn't manufacture anything.

Mr. Bauer: Right, but then you get into the issue of the universities and their licensing operations. What the university people would say, almost uniformly, is very different from those non-operating licensing companies that are only out to license, so it's hard to get a consensus. I think that most people think that the universities should still be entitled to injunctions because that's an important part of what they do when they license their patents. Also, the biotech industry thinks injunctions are very important, and you don't have many industry groups that would be operating to the exclusion of the biotech industry.

TWST: To any extent, are the technology licensing transfer professionals at the academic institutions doing what these non-operating entities are doing — trying to monetize their intellectual property through sending out demand letters?

Mr. Bauer: There is a big difference there. The universities are licensing as a way to recover actual R&D investment, and the universities are clearly moving the technology forward. I think the difference is that these licensing businesses are often finding patents that are

probably more dubious in terms of their technical advancement, and certainly, less recognized by the industry as a valuable contribution.

TWST: What kinds of strategies do you recommend to clients to keep in check their litigation and legal costs for defending themselves against claims?

Mr. Bauer: There are a few things. One, you want to make sure that your counsel is experienced in these kinds of matters. Too often, the client is asked to spend a lot of money training lawyers. In particular, if you're hiring litigators without significant patent trial experience, you're spending a lot of money teaching them the patent law, or because their team is larger than necessary when they add patent lawyers merely to provide the patent background. So that's one way to keep costs in check — hire people who already know the law and know how to try these cases. Also, you want to be sure you have a team that can operate efficiently. Finally, you can see if your firm is interested in a fee sharing or fee partnering arrangement. That's something that we are wide open to here at Proskauer — different ways to share the risk with our clients.

TWST: Would you tell us more about how you can structure the fee arrangements and how Proskauer might be able to share some of the risks?

Mr. Bauer: When on offense, in particular, what we sometimes do is take a reduced legal fee in return for a percentage of the recovery. It would be a smaller percentage than the contingency fee lawyer who does all the work for free, who is typically going to take 35% or 40% of the recovery. We'll consider taking a discount from our legal fee and a smaller recovery, and then the client is confident that we are motivated to get the largest recovery possible.

TWST: On the defensive side, what are some of the innovative ways that you structure your fees?

Mr. Bauer: It's a little bit harder on the defensive side, obviously, because typically the defendant is going to be paying some money to the plaintiff. One way to share the risk is to come up with what would be considered a likely "loss," in terms of dollar value, and then have an agreement that says if you can settle the case for something less than that likely loss, the law firm gets a percentage of the difference between the likely loss and the actual settlement.

TWST: Are there third parties out there that come up with what the likely loss would be?

Mr. Bauer: No. I think that's something that's just negotiated between the party and the counsel.

TWST: In the beginning of the interview, you said that more companies are getting active as far as managing their IP. Do you think that a lot of that is getting spurred on by the rising cost of litigation? In other words, perhaps CFOs are looking at their legal departments and all the costs that are associated with filing fees and continuations and so forth and are saying that, "Our IP is very expensive. We want to make our IP counselors a business unit and we want them to get more active in monetizing the IP."

Mr. Bauer: I think that's part of it. The CFOs look at the patent prosecution side and say, "Now how can we get some return

on the dollar for that?" The thing to remember is that there is a lot of intangible value to a patent portfolio that can never be measured. By intangible, I'm talking about real value that everybody knows exists, but it's impossible to put a dollar value on. For example, what is the "value" of a patent portfolio when it causes someone not to sue you for fear of a countersuit? You never know that a suit was avoided, you don't know how much money you saved, but everyone knows that this happens regularly and that people try to avoid suing companies with large patent portfolios of their own. So it's a little hard when bean counters start to put an actual value on what the patent portfolio is worth. But I certainly believe that there is a big effort to capture monetary value from these portfolios.

TWST: Are there any new issues that the Supreme Court may consider that would affect intellectual property?

Mr. Bauer: I think the biggest issue is the matter the Supreme Court just announced it would take in their next term, on the issue of patent obviousness. I think many people believe that that decision could have the biggest impact on patent litigation in the last couple decades.

TWST: So would you say that, in particular, business method patents may be most vulnerable?

Mr. Bauer: I don't think it's just business methods that are at risk. I think there's a lot of technology that's going to be reconsidered, certainly in the IT and electronics area. Many of these patents cover just the smallest improvements and the tiniest changes. So the real question is going to be whether those tiny improvements, things that were made for a specific embodiment, count as an invention or would it have been obvious to somebody? So I think it's going to affect a lot of areas, and business methods will be one.

TWST: What impact do you think Bush's appointees will have on these kinds of rulings?

Mr. Bauer: I think it's too early to know exactly how they're going to come down on these patent cases, but I think that they are looking at this, probably more likely, from the vantage point of the business and the impact patents have on business. So I think the Supreme Court is going to be looking at it from a different angle than those who typically look at it from the patent owner's viewpoint.

TWST: Are there any other trends that you're seeing with the kinds of issues that are of concern to your clients?

Mr. Bauer: I think those are the primary concerns right now. Our clients, in particular our technology clients, find themselves the targets of a lot of litigation where the plaintiff's negotiating stance is built around the cost of litigation. So to the extent that we can come up with clever ways to reduce the cost of litigation, those are ways that we can reduce the risk to our clients.

TWST: Would you say Proskauer Rose is one of the pioneers in coming up with innovative ways to help its clients to finance litigation or is it a trend?

Mr. Bauer: I think that there is a trend for law firms to come up with innovative ways to share costs with their clients. I believe that we are at the forefront of that, but maybe not the pioneer.

TWST: Do you think the American Bar Association or any other authority may find any ethical concerns with those kinds of arrangements?

Mr. Bauer: I don't think there's any concern with these arrangements that are anything different than with any other contingency fee. We're not doing anything that people haven't been doing for many years. It's just that, for patent litigation, you haven't typically seen these types of arrangements. Typically, it's been business against business and it's hard to value the actual value of the outcome due to many factors like cross licenses and royalty free payments and other business issues that you can't really put a dollar value on. But when people are enforcing patents simply for cash, it's easier to measure.

TWST: Thank you.

STEVEN BAUER

Partner

Proskauer Rose LLP

One International Place

Boston, MA 02110

(617) 526-9700

sbauer@proskauer.com

www.proskauer.com