

THE SEDONA CONFERENCE JOURNAL

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- Role of Customer Complaints & Testimony in Merger Enforcement Post-*Arch Coal & Oracle*** *Robert W. Doyle, Jr. & Neil Ray*
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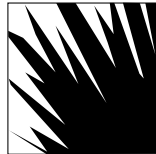
THE SEDONA CONFERENCE JOURNAL

V O L U M E 6



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PUBLISHER'S NOTE

Welcome to Volume Six of *The Sedona Conference® Journal* (ISSN 1530-4981), an annual collection of articles originally presented at our conferences and papers prepared by our Working Groups over the past year. The Sedona Conference® was founded in 1997 to provide a forum for advanced discussion by the nation's leading attorneys, academics and jurists of cutting-edge issues of law and policy in the areas of antitrust, intellectual property rights, and complex litigation. We host Regular Season Conferences and several Working Groups each year, providing unique and rewarding opportunities to seriously explore the boundaries of various areas of the law with those who are creating them. This volume of the *Journal* contains articles selected from our most recent Conferences on antitrust law and litigation (November 2004), patent litigation (November 2004), complex litigation (April 2005), and our Working Groups on Protective Orders, Confidentiality and Public Access (WG2) and the Role of Economics in Antitrust (WG3).

We hope that you will find that the papers in this Journal reflect the same mix of theory and experience found at our Conferences and Working Groups, including the creativity and constructive irreverence required to challenge traditional thinking. The views expressed herein are those of the authors', and we encourage the submission of counterpoint pieces. Submissions can be sent to us electronically at tsc@sedona.net, or by mail to The Sedona Conference, 180 Broken Arrow Way South, Sedona, AZ 86351-8998, USA. If you are interested in participating in one of our Conferences (limited to 40 participants in addition to the 15-person faculty, to encourage the dialogue that is our hallmark), or in joining one of the Working Groups, please visit our website for further information.

*Richard G. Braman
Executive Director
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STATE MERGER ENFORCEMENT

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State attorneys general have merger enforcement authority under their state antitrust statutes and under the Clayton Act.² Working individually, with other attorneys general, or with federal antitrust authorities, an attorney general can use this authority to investigate and challenge mergers and acquisitions. With this authority, states have secured divestitures or other remedies for those represented by the states.³

Despite or maybe because of these results, state merger enforcement has generated significant commentary. The commentary focuses on whether the costs of state merger review outweigh the benefits.⁴ In addition, state merger review poses the question of whether the process under which states and others review mergers can be improved. In comments suggesting topics to the Antitrust Modernization Commission, for example, the Antitrust Section of the American Bar Association suggested studying the impact of state merger enforcement.⁵ Indeed, 41 states suggested that the Antitrust Modernization Commission study ways to improve the way that state merger review interacts with merger review generally.⁶

Before analyzing how and whether the system can be improved, one needs to understand the themes of state antitrust enforcement and how those themes play out in the context of merger review. State antitrust merger enforcement generally focuses on the interests of consumers and the proprietary interests of the states. Merger review is far more regulatory than other aspects of antitrust practice. Thus, state interests within the context of merger review provide a useful framework for discussing state merger enforcement and responding to the critiques of state merger enforcement.

THE THEMES OF STATE MERGER ENFORCEMENT

Generally, state attorneys general have authority to protect the state's consumers,⁷ the state's proprietary interests,⁸ and the general welfare and economy of the state.⁹ These areas of state authority provide the context in which states will investigate or challenge potential anticompetitive activities, including mergers.

To protect the interests of consumers, states may investigate mergers between companies selling significant amounts of retail goods or services. Retail markets in which states have investigated

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2 States can file antitrust suits under state statutes, e.g., N.Y. Gen. Bus. Law Section 342, and federal statutes because states and their political subdivisions are considered "persons" under Section 4 of the Clayton Act, 15 U.S.C. Section 15. *Georgia v. Pennsylvania R.R. Co.*, 324 U.S. 439 (1945). States can also file for injunctive relief under Section 16 of the Clayton Act, 15 U.S.C. Section 26, or as *parens patriae* for actual or threatened harm to their general economy. *Hawaii v. Standard Oil Co.*, 405 U.S. 251 (1972).

3 See generally *State Antitrust Merger Enforcement*, in ABA SECTION OF ANTITRUST LAW, STATE ANTITRUST ENFORCEMENT HANDBOOK 70-94 (2004).

4 See generally Jonathan Rose, *State Antitrust Enforcement, Mergers, and Politics*, 47 WAYNE L. REV. 71 (1994); David Zimmerman, *Why State Attorneys General Should Have a Limited Role in Enforcing the Federal Antitrust Law of Mergers*, 48 EMORY L. REV. 337 (1999); Robert Lande, *When Should States Challenge Mergers: A Proposed Federal/State Balance*, 35 N.Y. L. SCH. L. REV. 1047 (1990). In addition, merger enforcement is part of the commentary on state antitrust enforcement generally. E.g., Michael DeBow, *State Antitrust Enforcement: Empirical Evidence and a Modest Reform Proposal* in COMPETITION LAWS IN CONFLICT 267, 276-77 (ed. Richard Epstein and Michael Greve, American Enterprise Institute 2004).

5 Report of the Section of Antitrust Law of the American Bar Association to the Antitrust Modernization Commission at 4, 12-13 (Sep. 30, 2004), available at www.abanet.org/antitrust/comments/2004/CommentsModernizationCommission.pdf.

6 Comments Regarding Commission Issues for Study submitted by 42 Attorneys General to the Antitrust Modernization Commission at 6-7, Oct. 1, 2004, available at www.naag.org/issues/pdf/2004-10-01_Antitrust_Modernization_Commission_Final.pdf.

7 15 U.S.C. Section 15C.

8 15 U.S.C. Sections 15, 26; see *Georgia v. Pacific R.R. Co.*, 324 U.S. 439 (1945).

9 *Hawaii v. Standard Oil Co.*, 405 U.S. 251 (1972).

and litigated allegedly anticompetitive mergers include supermarkets,¹⁰ drug stores,¹¹ department stores,¹² hospitals,¹³ HMOs,¹⁴ gasoline stations,¹⁵ and direct broadcast television.¹⁶

Second, a state is likely to be interested in a transaction if the merger will affect the proprietary interests of the state. The state and other public entities may be significant purchasers of the merging companies. Health care markets also fit into this category, which also extends to rock salt markets¹⁷ and business enterprise software.¹⁸

CONTEXT OF STATE MERGER REVIEW UNDER FEDERAL ANTITRUST LAW

Unlike other antitrust matters, merger review is very regulatory. Although the approval of federal antitrust enforcers is not required before a transaction can be completed, the process includes mandatory waiting periods after forms are filed and an obligation to comply with requests for additional information from federal enforcers.¹⁹ Based on the reasoning that consummated anticompetitive transactions are difficult to remedy, the system provides and the federal enforcers use significant opportunities to analyze the competitive consequences of specific transactions before those transactions are consummated.

In addition to the general antitrust system for reviewing mergers requiring notice and waiting periods, other governmental agencies must approve various transactions. This regulatory framework, particularly in energy, utilities, or health care markets, can create significant periods of time between when a transaction is announced and when the transaction can be consummated.

Although they have investigatory powers, states are not statutory participants in the federal merger review process²⁰ and usually not formally part of the various regulatory review procedures. Attorneys general do not have specific antitrust rights to notice, with opportunities to investigate, potentially anticompetitive mergers under state law. Thus, with their investigatory powers states generally use the period between when a transaction is announced and when the transaction can be consummated because of the rights given to others to conduct their merger reviews.

Merger review is dependent on prompt access to the appropriate information about the transaction. Because states do not get federal premerger filings from either the federal agencies or the parties as a matter of course, the states created the National Association of Attorneys General Voluntary Pre-Merger Disclosure Compact.²¹ Forty-five states executed the Compact, which was designed to provide an incentive for merging parties to provide the States with copies of premerger filings voluntarily. Originally and in exchange, states agreed to waive the right to use compulsory process to investigate the transaction until the transaction could be consummated under the federal merger review system. The Compact was rarely used until *California v. American Stores Co.*,²² made clear that states could secure divestiture as a remedy for a violation of Section 7 of the Clayton Act.²³ The states revised the Compact in March 1994. The revisions addressed the difficulty that states

10 *California v. American Stores Co.*, 495 U.S. 271 (1990); *Wal-Mart Stores, Inc. v. Rodriguez*, Secretary of Justice of Puerto Rico, 322 F.3d 747 (1st Cir. 2003); Press Release, State of Alaska Office of Governor, Consent Decree Proposed for Carrs-Safeway Merger (Feb. 9, 1999), available at www.law.state.ak.us/pressreleases/99025.html; New York Attorney General Announces Divestitures by A&P, 55 Antitrust & Trade Reg. Rep. (BNA) 1073 (Dec. 22, 1988).

11 For example, along with the FTC, various states investigated the proposed acquisition by RiteAid of Revco in early 1996. RiteAid abandoned the transaction when the FTC and the states announced that they would challenge the acquisition.

12 *The Bon-Ton Stores, Inc. (and New York) v. The May Dep't Stores Co.*, 881 F. Supp. 860 (W.D.N.Y. 1994).

13 *Wisconsin v. Kenosha Hospital & Medical Center*, 1996-1 Trade Cas. (CCH) Paragraph 71,669 (E.D. Wis. 1996); *California v. Sutter Health Sys.*, 130 F. Supp. 2d 1109 (N.D. Cal. 2001).

14 See *States Review Aetna-Prudential Deal, Set Conditions on Top of DOJ Decree*, 77 ANTITRUST & TRADE REG. REP. 68 (BNA) (July 15, 1999); *Texas Settlement with Columbia/HCA Requires Continued HMO Competition*, 68 ANTITRUST & TRADE REG. REP. (BNA) 135 (Aug. 8, 1996).

15 *California v. Chevron Corp.*, Case No. 01-07746 NM (C.D. Cal. Sept. 7, 2001); *Washington v. Tosco Corp.*, No. C97-1773 (W.D. Wash. Nov. 12, 1997); *Washington v. Texaco Refining & Marketing, Inc.*, 1991-1 Trade Cas. (CCH) Paragraph 69,346 (W.D. Wash. 1991).

16 The Department of Justice, 23 state attorneys general, the District of Columbia and Puerto Rico sued to block the merger of Echostar Communications Corp. and Hughes Electronic Corp., the two largest providers of direct broadcast satellite television in the United States. *United States v. Echostar Communications Corp.*, No. 1:02CV02138 (D. D.C. filed Oct. 31, 2002). The parties ultimately abandoned the proposed transaction.

17 *United States (and New York, Pennsylvania, and Ohio) v. Cargill Inc.*, 1997-2 Trade Cas. (CCH) Paragraph 71,893 (W.D.N.Y. 1997).

18 *United States v. Oracle Corp.*, No. C-04-0807, 2004 U.S. Dist. LEXIS 18063 (Sept. 9, 2004).

19 18 U.S.C. Section 18A.

20 *Mattox v. FTC*, 752 F.2d 116, 124 (5th Cir. 1985) (applying pre-merger review confidentiality provisions to state requests for access); *Lieberman v. FTC*, 771 F.2d 32, 37-40 (2d Cir. 1985) (same).

21 4 TRADE REG. REP. (CCH) Paragraph 13,410.

22 495 U.S. 271 (1990).

23 15 U.S.C. Section 18.

encountered trying to obtain information during the merger review process. The revision eliminated the waiver of all resort to compulsory process during the review period. Rather, states now only agree to seek the voluntary production of supplemental materials prior to using compulsory process. The states' comments to the Antitrust Modernization Commission on mergers suggest that this procedure become part of the formal federal merger review process.²⁴

COORDINATING WITH OTHERS

Given the scope of transactions in our global economy, states usually conduct a merger review in conjunction with others. A transaction that raises antitrust concerns for one state is likely to raise antitrust concerns for federal antitrust enforcers and for other states. Usually, a state's participation helps achieve better results for state purchasers and consumers affected by the merger.

In merger challenges in which states are not the lead or first-named plaintiff, states add to the litigation. Such efforts are not "needless duplication" or "piling on." Rather, states coordinate and cooperate to ensure a fuller analysis. When interacting with federal enforcers, states can add their knowledge of the local markets and familiarity with the local geography. States help navigate through and explain state agency and regulatory overlays as in banking, health care, and insurance markets. This assistance can ensure that federal enforcers understand this regulatory process, particularly when the states and the merging parties have different takes on the regulatory process. States also can act as local counsel for their federal counterparts and share the work.

From the perspective of the state, committing resources to a joint investigation with federal enforcers is eminently reasonable. The marginal benefit is often worth the marginal cost. Within the investigation or litigation, the state can push to accomplish state goals. An attorney general can bring specific attorney general tools and experience to bear for the investigation or litigation as a whole.

FEDERAL-STATE PROTOCOL

These overlapping interests in 1998, led the Department of Justice Antitrust Division, the FTC, and the states to adopt a framework for joint merger investigations "with the goals of maximizing cooperation between the federal and state enforcement agencies and minimizing the burden on the parties."²⁵ The Protocol for Coordination in Merger Investigations ("Merger Protocol") provides guidelines for sharing confidential documents among the agencies, dividing work among federal and state personnel, coordinating the collection of information and evidence, and collaborating on strategy or settlement negotiations.

Under the Merger Protocol, the investigating federal agency will provide, with the consent of the merging parties, copies of HSR materials and other party documents to a state or a multistate coordinating state. Before the states may receive the documents, the parties must submit a letter to the federal agency waiving their HSR confidentiality rights that would otherwise prevent access by the states. The procedure often is used in merger investigations because parties want to avoid receiving separate subpoenas from the states.

The Merger Protocol urges state and federal enforcers to have a conference call early in an investigation to assign responsibilities to attorneys, exchange potential legal and economic theories, and identify evidence that needs to be collected and potential experts to be consulted. The Merger Protocol calls for the agencies to coordinate the collection of evidence, including working jointly on document requests and review and gathering information from witnesses through declarations, interviews and depositions. State and federal enforcers also should decide early on whether to employ experts jointly. If experts are to be hired separately, the agencies should develop a method to exchange their experts' theories.

²⁴ See note 6 *supra* and accompanying text.

²⁵ Protocol for Coordination in Merger Investigations Between the Federal Enforcement Agencies and State Attorneys General, available on the American Bar Association, Antitrust Section website at <http://www.abanet.org/antitrust/committees/state-antitrust/mrgrprotocol.pdf>

Settlement negotiations also are addressed in the Merger Protocol, with an admonition that “it is imperative that federal and state antitrust enforcement agencies collaborate closely with respect to the settlement process.” Recognizing that each governmental entity is “fully sovereign and independent,” the Protocol emphasizes that the states and federal agencies should conduct joint settlement meetings with the parties, or at least, consult with each other about the terms being proposed. The Merger Protocol provides that if either the state or federal agency “pursue[s] a negotiation or settlement strategy different from that of the other investigating agencies, or decides to close its investigation, it should disclose that fact immediately.”

The Merger Protocol takes advantage of the different focus and approach to merger review that states and federal enforcers have. States can focus on state concerns, while federal authorities focus on other areas of a transaction. State attorneys general can work individually, with other state attorneys general, or with the federal agencies to ensure that state interests are protected. In a joint investigation, states assist the overall merger review by contributing resources and useful analysis.

Most antitrust enforcers from different states take a similar approach to merger enforcement. State attorneys general largely have congruent interests because they typically focus on their states' proprietary interests and the impact of the merger on retail consumers and their state's economy. The multistate process allows the states to share resources in an investigation. In a merger investigation, states can jointly conduct research and interviews, share information or theories, and develop a unified strategic approach to reviewing or challenging the merger. Yet, proprietary interests will differ from state to state, and state law remedies vary. Therefore, each individual state's enforcers must determine how the merger will specifically impact their state's purchasers, consumers and businesses, and determine what remedies will best mitigate the impact in their state.

Federal authorities often have a broader or different focus than the states. In the merger context, the federal agencies are less likely than states to focus on retail consumer issues. Conversely, federal agencies would be more interested than the states in combinations involving non-retail goods. Sometimes this different focus results in interesting allocations of responsibility in joint investigations. In many of the oil company mergers, the Federal Trade Commission focused more on national issues like refineries and pipelines, while the states focused more on retail/local issues like gasoline stations. Similarly, in drug store mergers, the Federal Trade Commission focused on the competitive effect on third party payers, while the states focused on the competitive effect on cash payers.

Federal authorities also do not always take into account the proprietary interests of states. Thus, where a merger may impact state purchasers, state attorneys general represent those purchasers, using state data and witnesses. The recent federal and state litigation against Oracle Corp. to stop its acquisition of PeopleSoft provides an example. The Department of Justice concluded that the merger would have anticompetitive effects for large companies that purchase the complex business software sold by both companies. The states joined the suit primarily to represent the interests of their state and local agencies that also purchase those systems.²⁶

GOING IT ALONE

At the same time, a state's interest need not be protected only through joint action. Through litigation and consent decrees, states take action when federal enforcers decline to do so. For example, Wisconsin challenged the merger of two hospitals that the Federal Trade Commission had cleared and obtained a consent decree requiring the hospitals to create a state supervised fund for

²⁶ See *United States et al. v. Oracle Corp.*, No. C-331 F. Supp. 2d 1098 (N.D. Cal. 2004).

indigent care.²⁷ California,²⁸ Connecticut,²⁹ Maine,³⁰ New York,³¹ and Washington³² also have challenged mergers + sometime successfully and sometimes not + when the Federal Trade Commission or the Antitrust Division declined to act. Harm to the interests protected by the state can still occur if no other enforcer takes action. The federal antitrust laws give the attorney general the right to vindicate those interests. Indeed, deciding whether to take action can involve probing whether the harm to those represented by the state can be “fixed,” even if the transaction or restraint benefits (or is neutral) the rest of the country. If parties refuse to “fix” the state’s concern, that might illustrate that the transaction or restraint may be more about harming those represented by the state, as opposed to securing national or other benefits.

The varying approaches to antitrust enforcement make clear that states simply cannot rely on the federal agencies or private parties to address the needs of their constituents. Moreover, by working with the federal agencies, state enforcers can push a merger investigation to achieve better results. Still, state enforcers should always carefully weigh their options and should not commit resources lightly to a merger. States should always consider doing nothing.

IS STATE MERGER ENFORCEMENT POLITICALLY MOTIVATED?

Despite or maybe because of this record, state merger enforcement, like state antitrust enforcement generally, has its critics.³³ Most of those criticisms have already been addressed above. States are not “free riders.” States add to antitrust jurisdiction, including in merger review. The most prominent example of that, of course, is *California v. American Stores Co.*,³⁴ which held that a private party can secure divestiture as a remedy for an anticompetitive merger review.

The most significant remaining criticism is that states make political, not enforcement, decisions when resolving merger investigations. Usually this criticism equates “political” decisions with “parochial” decisions by the attorney general, favoring in state business over out of state businesses.³⁵ Yet, state attorneys general have the obligation and right to protect the state’s economy, including from harm inflicted by out-of-state businesses. An attorney general is supposed to focus on and advocate for the interests of the state.³⁶

Beyond being parochial, critics also argue that state attorneys general abuse antitrust law to further non-competitive concerns. For example, critics argue that states worry too much about jobs, and not enough about the competitive process.³⁷ This criticism can be met substantively. Preserving the competitive process requires preserving separate competitors,³⁸ and jobs are part of preserving that separate decision maker. For example, the critic identifies the obligation in *Maine v. Connors Brothers Ltd.* to maintain workably competitive assets in Maine as “parochial,” while Maine’s decree can be defended easily as a means to maintain competition in the Gulf of Maine, a separate geographic

27 *Wisconsin v. Kenosha Hosp. & Med. Ctr.*, 1997 Trade Cas. (CCH) Paragraph 71,669 (E.D. Wis. 1996).

28 *California v. American Stores Co.*, 495 U.S. 271 (1990); *California v. Quality Food Centers*, 98 CV 01 010 (C.D. Cal. Feb 19, 1998) (see *Grocery Store Merger is Cleared After State Gets Divestiture Agreement*, 74 ANTITRUST & TRADE REG. REP. (BNA) 167 (1998)); *California v. Columbia/HCA*, (N.D. Cal. Dec. 23, 1998) (see *State Obtains Settlement to Permit Consolidation of Hospitals so Proceed*, 76 ANTITRUST & TRADE REG. REP. 48 (BNA) (Jan. 21, 1999)); *California v. Sutter Health Sys.*, 84 F. Supp. 2d 1057 (N.D. Cal.) (Preliminary injunction denied), *aff’d mem.*, 217 F.2d 846 (9th Cir. 2000), *opinion after remand*, 130 F. Supp. 2d 1109 (N.D. Cal. 2001).

29 *Stanley Works (and Connecticut) v. Newell Co.*, 1992-2 Trade Cas. (CCH) Paragraph 70,008 (D. Conn. 1992).

30 *Consent Order, Maine v. Maine Heart Surgical Assocs.*, CV96-336 (Me. Super. Ct. Kennebec, July 22, 1996) (merger of the practices of nine heart surgeons); *Maine, ASC Settle Pricing Concerns Over Ski Resort Industry Acquisition*, 71 ANTITRUST & TRADE REG. REP. 63 (BNA) (July 18, 1996); .

31 *New York v. May Department Stores*, 881 F. Supp. 860 (W.D.N.Y. 1994) (preliminary injunction granted); *New York v. Kraft Gen. Foods Inc.*, 862 F. Supp. 1035 (S.D.N.Y. 1994) (preliminary injunction denied); *New York Attorney General Announces Divestiture by A&P*, 55 Antitrust & Trade Reg. Rep. (BNA) 1073 (Dec. 22, 1988).

32 *Washington v. Texaco Inc.*, 1997-2 Trade Cas. (CCH) Paragraph 72,019 (W.D. Wash. 1997).

33 See generally Richard A. Posner, *Federalism and the Enforcement of Antitrust Laws by State Attorneys General*, in COMPETITION LAWS IN CONFLICT 252 (ed. Richard Epstein and Michael Greve, American Enterprise Institute 2004). This chapter was based on Richard Posner, *Is Federalism Overrated?*, before the American Enterprise Institute for Policy Research, Washington, D.C. (Apr. 21, 2003) at <http://www.federalismproject.org/masterpages/Antitrust/Posner.pdf>. That speech elicited a response: Jay Himes, “Federal ‘Unemption’ of State Antitrust Enforcement” at 9-14,” prepared for the Antitrust, Competition and Trade Committee of LEX MUNDI (Boston, MA May 14, 2004)” available on the publications portion of the ABA Antitrust Section State Enforcement Committee’s website: <http://www.abanet.org/antitrust/committees/state-antitrust/publications.html>.

34 495 U.S. 271 (1990).

35 Posner, *supra* note 33, at 257-58.

36 For example, under New York law “the attorney general shall . . . protect the interests of the state.” N.Y. Exec. Law Section 63.1.

37 E.g., Michael DeBow, *State Antitrust Enforcement: Empirical Evidence and a Modest Reform Proposal* in COMPETITION LAWS IN CONFLICT 267, 275-77 (ed. Richard Epstein and Michael Greve, American Enterprise Institute 2004)

38 *Consolidated Gold Fields PLC v. Minorco, S.A.*, 871 F.2d 252 (2d Cir. 1989).

market delimited by the international frontier.³⁹ In short, reasonable minds can differ about when a merger is anticompetitive. The only other example of “parochialism” given is Pennsylvania’s effort to “undo Russell Stover Candies’ acquisition of the Whitman Chocolates assets from Pet, Inc., [which] seems to have derived almost entirely” from the desire to protect Pennsylvania jobs.⁴⁰ Here, too reasonable minds can differ about what mergers are anticompetitive and what is needed to protect competition. But this matter illustrates an even more fundamental point. Russell Stover could and did contest Pennsylvania’s argument, and Russell Stover prevailed. That is, the criticism overlooks how antitrust disputes are decided when reasonable minds might differ. Judges, not state attorneys general, decide whether an antitrust claim exists and whether an antitrust remedy is appropriate.

The most significant response to the critics is to specify the benefits of state merger enforcement, which is what this article has tried to do. Two allegedly “parochial” efforts, do not outweigh the many other benefits brought by state merger enforcement.

39 DeBow, *supra* note 37, at 276. Maine recently responded to this criticism in comments to the Antitrust Modernization Commission. Comments of the Maine Attorney General on the Role of States in Enforcing Federal Antitrust Laws Outside the Merger Area, at 12-14, available at http://amc.gov/public_studies_fr28902/enforcement_pdf/050715_Rowe-Maine_AG-Enforce_Inst.pdf.

40 DeBow, *supra* note 37, at 276.

ROLE OF CUSTOMER COMPLAINTS AND TESTIMONY IN MERGER ENFORCEMENT POST-ARCH COAL AND ORACLE

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INTRODUCTION

“Never underestimate the power of the irate customer” warns a leading business consultant.³ Strong opposition from customers to a proposed merger used to be a potential death sentence for a deal. But two recent defeats suffered by the government’s antitrust authorities in major merger cases provide an interesting insight into the current use of customer complaints and testimony in merger enforcement decisions.

BACKGROUND

The intuitive sense of most antitrust counsel has long been that both the US Department of Justice (DOJ) and the US Federal Trade Commission (FTC) give great weight to customer opinions in their enforcement decisions. This was recently confirmed by data released by the DOJ and FTC in advance of a three day Workshop on the Horizontal Merger Guidelines held in February last year. However, the DOJ and the FTC each suffered a significant defeat in merger litigation within the space of a few months last year. In each case, a federal district court ruled that the government had not established that the merger was likely to lessen competition.

Although the two cases were very different both factually and legally, there was one noteworthy similarity. In each case, numerous customers testified in support of the government’s case, stating that they would suffer from a reduction in competition because of the transactions. But both courts dismissed the customer testimony as unpersuasive, describing it as speculative or subjective, and lacking hard support or analysis. We discuss these two cases, and the potential role of customer complaints in the government’s merger enforcement strategy going forward.

GOVERNMENT MERGER INVESTIGATION DATA SHED LIGHT ON MERGER REVIEW PROCESS

To increase transparency and facilitate discussion of its Workshop on the Horizontal Merger Guidelines, the FTC and DOJ released two data sets. The first release concerned merger enforcement data going back to the year 1999 and contained market share and concentration levels associated with the agencies’ decisions to challenge mergers in a wide range of industries impacting many distinct product markets.⁴ The second data set released by the FTC contained data on 151 horizontal merger investigations during fiscal years 1996 to 2003, and included data where no enforcement action was taken as well as data based on additional key facts.⁵ For example, the data tabulated the FTC’s enforcement decisions based on the presence of “hot documents” and “strong customer complaints” identified during the investigation. Customer reaction was recorded as a “strong customer complaint” where customers expressed a credible concern that a significant anticompetitive effect would result

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³ Joel E. Ross, *Total Quality Management: Text, Cases, and Reading*, (3rd ed., CRC Press, 1999).

⁴ Department of Justice and Federal Trade Commission, *Merger Challenges Data, Fiscal Years 1999-2003* (Dec. 18, 2003).

⁵ FTC Horizontal Merger Investigation Data, *Fiscal Years 1996-2003* (Feb. 2, 2004).

were the transaction allowed to proceed. The data suggested that the presence of incriminating documents or significant customer complaints had a dramatic impact on enforcement decisions. Specifically, in almost every instance where one of those two factors (documents or complaints) was present, the FTC sought to prevent the proposed merger. In contrast, when those facts were not present, the FTC was far less likely to seek enforcement.

ORACLE DECISION

However, in *United States v. Oracle Corporation*, 331 F. Supp.2d 1098 (N.D. Cal. 2004), the court discounted testimony from the government's impressive lineup of customer witnesses, which included high ranking corporate executives from DaimlerChrysler, Pepsi Americas, Verizon Communications, among others, and a state official responsible for the purchase of relevant products.⁶ The case concerned Oracle's hostile bid for PeopleSoft. Both sell sophisticated enterprise resource planning (ERP) software to automate data processing for large business and government entities. Each company's ERP software offerings include human relations management (HRM) software; financial management systems (FMS) software; customer relations management (CRM) software; and supply chain management (SCM) software.

After an extensive review, in February 2004, the DOJ filed suit to enjoin Oracle from completing its acquisition of PeopleSoft, relying on an unilateral effects theory of harm. The DOJ complaint alleged that both Oracle and PeopleSoft make "high function" HRM and FMS. While it acknowledged that other software vendors produced sophisticated HRM and FMS software, the DOJ alleged that the "high function" HRM and FMS software products of Oracle and PeopleSoft, and to a lesser degree, SAP of Germany, compete in a market that is separate and distinct from that of other HRM and FMS products. As a result, according to the DOJ, PeopleSoft constrained Oracle's pricing in a way that other competitors would not after the merger. DOJ offered the testimony of numerous customers, including those highly sophisticated companies listed above, that PeopleSoft and Oracle were the only two companies that could provide software with the functionality that could meet their requirements.

Many of Oracle's and PeopleSoft's customers testified that they would not purchase software from other companies in the event a combined Oracle/PeopleSoft raised prices a small but significant amount. However, the court found the testimony of these customer witnesses, "contrary to plaintiffs' counsel before trial", was "largely unhelpful to plaintiffs' effort to define a narrow market of high function FMS and HRM". *Oracle, supra*, at 1130. The court acknowledged that the witnesses had an impressive background in the sector, and appeared knowledgeable and well informed about their respective organization's ERP needs and resources. In fact, the court acknowledged that the government's customer witnesses were "extremely sophisticated buyers and users of information technology...[with] decades of experience in negotiating in this field." *Id.* at 1131. It did not also doubt the sincerity of their testimony and, their evident preference for the functional features of Oracle and PeopleSoft products. However,

[T]he issue is not what solutions the customers would *like* or *prefer* for their data processing needs; the issue is what they *could* do in the event of an anticompetitive price increase by a post-merger Oracle. Although these witnesses speculated on that subject, their speculation was not backed up by serious analysis that they had themselves performed or evidence they presented. There was little, if any, testimony by these witnesses about what they would or could do or not do to avoid a price increase from a post-merger Oracle. To be sure, each testified, with a kind of rote, that they would have no choice but to accept a ten percent price increase by a merged Oracle/PeopleSoft. But none gave testimony about the cost of alternatives to the hypothetical price increase a

6 In fact, ten customer witnesses were called by the DOJ during the Oracle trial. High level company executives and the chief information officer of a state appeared on behalf of the government to testify that the proposed merger was anticompetitive: (1) Daimler Chrysler; (2) CH2M Hill; (3) North Dakota; (4) Pepsi Americas; (5) AIMCO; (6) Nextel; (7) Greyhound Lines; (8) Neiman Marcus Group; (9) Verizon; and (10) Cox Communications. Oracle, on the other hand, called two buyers of information technology, one from Bank of America and the other from Emerson Electric Company.

post-merger Oracle would charge: e.g., how much outsourcing would actually cost, or how much it would cost to adapt other vendors' products to the same functionality that the Oracle and PeopleSoft products afford. *Id.* at 1131 (emphasis in original).

The court thus confirmed that customer preferences for Oracle's and PeopleSoft's products did not negate their need to show actual lack of interchangeability. The court cited Robert Pitofsky, *New Definitions of the Relevant Market and the Assault on Antitrust*, 90 Colum. L. Rev. 1805, 1816, (1990),

There will almost always be classes of customers with strong preferences but to reason from the existence of such classes to a conclusion that each is entitled to a separate narrow market definition grossly overstates the market power of the sellers.

However, the court provided important guidance as to the overall use of customer testimony. In essence, such testimony should not constitute the primary evidence of product market definition or economic injury, and should serve merely as useful human commentary to the underlying economic evidence of the injury to competition. The court stated,

If backed by credible and convincing testimony of this kind [cost of alternatives to the hypothetical price increase a post-merger Oracle would charge] or testimony presented by economic experts, customer testimony of the kind plaintiffs offered can put a human perspective or face on the injury to competition that plaintiffs allege. But unsubstantiated customer apprehensions do not substitute for hard evidence. *Oracle, supra*, at 1131.

Thus, Judge Walker rejected the DOJ's product market definition, and held that 'high-function' HRM and FMS does not exist as a separate and distinct line of commerce. He concluded that the DOJ had not proven that HRM and FMS software products from vendors such as Lawson, AMS and Microsoft, and from outsourcing firms such as Fidelity, would not constrain a combined Oracle/PeopleSoft from imposing a small but significant non-transitory price increase. DOJ chose not to appeal.

ARCH COAL DECISION

In *Federal Trade Commission v. Arch Coal, Inc.*, 329 F. Supp.2d 109 (D.D.C. 2004), the FTC filed a complaint in April 2004, seeking an injunction to prevent the acquisition by Arch Coal Company LLC (Arch) of Triton Coal Company LLC (Triton). Both companies owned two coal mines in Wyoming's Southern Powder River Basin (SPRB). The SPRB is a source of coal with particular characteristics that are different from coal mined in other parts of the country. Specifically, coal mined from the SPRB (SPRB Coal) has energy content ranging from 8300 to 8800 British Thermal Units (Btu), and is lower in sulfur content than most coals mined in other regions of the country.

The complaint alleged that Arch's acquisition of Triton would increase concentration among the remaining SPRB coal producers and eliminate the substantial competition between Arch and Triton. It also would combine the two of the four producers of 8800 SPRB coal and substantially reduce competition in the 8800 Btu SPRB coal market, and would increase the likelihood of coordination among the remaining producers of SPRB coal. The government relied heavily on testimony from utility customers, sophisticated buyers of SPRB coal products. The following customer testimony was typical, "My biggest concern is that I will have one less person to do contract business with to purchase coal from in the Southern Power River Basin" and that "concentration of ownership in the PRB coal market would translate to higher prices." *Arch Coal, supra*, at 145. However, the court gave almost no weight to the customer testimony. In fact, the court noted:

In many contexts..... antitrust authorities do not accord great weight to the subjective views of customers in the market. See 2A Areeda, et al., *Antitrust Law* 538b, at 239 (“[l]east reliable [evidence] is ‘subjective’ testimony by customers ... Though not irrelevant, such statements are often unreliable.”); *FTC. v. Owens-Illinois, Inc.*, 681 F. Supp. 27, 38 (D.D.C.), vacated as moot, 850 F.2d 694 (D.C.Cir. 1988) (“opinions of purchasers must be viewed in light of their actual behavior”). *Arch Coal, supra*, at 145-146.

In similar language to the later *Oracle* judgment, the court stated that it did not doubt the sincerity of the customers’ concerns but that,

[T]he substance of the concern articulated by the customers is little more than a truism of economics: a decrease in the number of suppliers may lead to a decrease in the level of competition in the market. Customers do not, of course, have the expertise to state what *will* happen in the SPRB coal market, and none have attempted to do so. The Court therefore concludes that the concern of some customers in the SPRB coal market that the transactions will lessen competition is not a persuasive indication that coordination among SPRB coal producers is more likely to occur. *Id.* at 146.

The district court rejected the FTC’s assertions that it should find a sub-market for 8800 Btu coal. The court concluded that, post-merger, coordination would be highly unlikely given that bidding processes are extremely competitive, there is usually at least one unpredicted “maverick” low bid, and there is little, if any, efficient and accurate information sharing between competitors. Finding no history of express or even tacit coordination, no clear indicia of future coordination and recognizing Triton’s unlikely future as a “maverick” in the market, the court concluded that the FTC had failed to meet its evidential burden and denied its request for a preliminary injunction. The FTC filed an emergency motion with the United States Court of Appeals for the District of Columbia, requesting it to enjoin the acquisition pending the FTC’s appeal of the lower court’s decision. The Court of Appeals denied the FTC’s motion. Later, the FTC withdrew its appeal and chose not to pursue a review of the district court’s decision.

ISSUES RAISED BY *ORACLE* AND *ARCH COAL* DECISIONS

The *Oracle* and *Arch Coal* decisions raise, in particular, fundamental questions with respect to the application and utility of customer testimony in the definition of a relevant product market and establishing anticompetitive effects, which are essential elements in any government merger enforcement action under the Clayton Act.

In *Oracle*, Judge Walker stated that, “the issue is not what solutions the customers would like or prefer for their data processing needs; the issue is what they *could* do in the event of an anticompetitive price increase by a post-merger Oracle”. *Oracle, supra*, at 1131. But this appears inconsistent with the *Horizontal Merger Guidelines* standard for determining whether substitute products should be considered in establishing a relevant market for purposes of the Clayton Act. The *Horizontal Merger Guidelines* state that it is whether there are substitutes to which a customer *would* switch in response to a small but significant and non-transitory price increase in the product in question (emphasis added).⁷ In considering the likely reaction of buyers to a price increase, the government should take into account all relevant evidence, including evidence that buyers *have* shifted or *have considered* shifting purchases between products in response to relative changes in price or other competitive variables (emphasis added).⁸ The Guidelines suggest a practical test relating to switching, not a test relating to theoretical possibilities as suggested by the court.

The *Oracle* and *Arch Coal* cases also represent a move away from the persuasive evidential value of customer testimony and affidavits in determining how the court assesses their response to a

⁷ *DOJ and FTC Horizontal Merger Guidelines*, Section 1.11 General Standards, Market Definition, “That is, assuming that buyers would respond to an increase in price for a tentatively identified product group, only by shifting to other products, what *would* happen?” (emphasis added).

⁸ *Id.* above, Section 1.11 General Standards, Market Definition.

small but significant and non-transitory price increase (SSNIP) in preference of empirical customer evidence. Previously, customer testimony and affidavits as to how they would respond to a SSNIP have been regarded as persuasive evidence by the courts.⁹ But customer testimony may now be perceived as “subjective” and “although not irrelevant...often unreliable”¹⁰ without supporting underlying economic evidence.¹¹ But it is questionable whether it is the role of customers to engage in the often time-consuming and expensive task of conducting detailed economic analysis to ascertain the potential anticompetitive effects of a proposed acquisition, and to assess the potentially deleterious consequences for their business. This is true particularly in situations where sophisticated buyers do not engage in that type of analyses in making everyday buying decisions. If customer testimony is ignored simply because it lacks a formal economic basis, the courts risk ignoring the market realities of the category of persons who makes actual informed buying choices and whose interests it should be aiming to protect.

USE OF CUSTOMERS IN FUTURE GOVERNMENT ENFORCEMENT DECISIONS

Certainly, customers are, and will continue to be, a primary source of information in a government merger investigation. They can tell the government about the history of an industry, about its products, and how the industry works. They can also provide information on the costs of production, prices, delivery practices, sources of supply, substitution, and competitive abilities and disabilities. Indeed, informed buyers can provide the government with detailed information on the buying decision process. However, the government should remain alert not only to customers’ potential biases but also customers’ inability to discern how the interplay of market forces will affect competition in the future. In addition, as one former FTC Commissioner, Mary L. Azcuenaga, perceived in a speech over two decades ago,

Customers may lack access to all the facts that are relevant to assessing competitive implications, and they may not have the legal and economic training to assess those facts. ...It is our job to examine the assertions and the underlying assumptions....The question in reviewing proposed transactions is whether anticompetitive effects are likely, not how many customer affidavits, pro or con, can be accumulated. *FTC Enforcement Under Section 7 of the Clayton Act*, Address at the Practising Law Institute, Twenty-Fourth Annual Advanced Antitrust Workshop, March 9, 1984.

INTERNATIONAL DIMENSION

In this context, it is important to note the international dimension of many mergers and the increasing cooperation between different countries’ antitrust agencies, in particular between the FTC/DOJ and the European Commission. In the European Union, there has historically been an increased risk that customer concerns would lead to lengthy investigations and opposition to deals where the legal and economic evidence ran counter to customer concerns. But the European Commission’s new best practice guidelines are illustrative of the role of customer complaints and the requirement placed on customers to provide empirical evidence to substantiate their antitrust concerns at the early stage of a merger investigation. This approach is not dissimilar to that suggested by Judge Walker when he noted with particularity the “failure of these [government] witnesses to present cost/benefit analyses of the type that surely they employ and would employ in assessing an ERP purchase.” *Oracle*, supra, at 1131.

The European Commission’s Best Practices on the Conduct of Merger Proceedings confirms that the EU Merger Regulation¹² views customers as having a “sufficient interest” in the

9 See *FTC v. Butterworth Health Corp.*, 946 F. Supp. 1285, 1292-93 (W.D. Mich. 1996), *aff’d* by 121 F.3d 708 (6th Cir. 1997) (“The most persuasive of these are the views of customers.”) and *Bathe v. Casey’s Gen. Stores, Inc.*, 64 F.3d 340, 346-7 (8th Cir. 1995) (most important dynamic evidence is that indicating where consumers could practically turn for alternative services to avoid doing business with the antitrust defendant).

10 Philip E. Areeda and Herbert Hovenkamp, *Antitrust Law, An Analysis of Antitrust Principles and Their Application*, Volume 2A, Ch. 5 Market Power and Market Definition. Para. 538 (1980).

11 See e.g. *California v. Sutter Health Sys.*, 84 F. Supp. 2d 1057 (N.D. Cal. 2000) (“As stated by the court in *FTC v. Freeman Hosp.*, 911 F. Supp. 1213, 1220, ‘while such non-empirical data may have some probative value as a starting point to evaluate this market, such data will not carry the [plaintiff’s] burden. Informal, off-the-cuff remarks and anecdotal evidence concerning the marketplace are no substitute for solid economic evidence.’”)

12 Council Regulation No 139/2004 on the control of concentration between undertakings, OJ L 24 29.1.2004

Commission's investigative procedure.¹³ The primary way for customers to contribute is by means of replies to requests for information (known as Article 11 requests). However, customers that do not receive a questionnaire are still entitled to provide information and comments that they consider relevant for the assessment of a given transaction. Customers may also be invited to attend meetings to discuss and clarify their concerns.¹⁴ The European Commission may, in certain cases, also provide customers with an edited non-confidential version of the merger filing submitted by the parties.¹⁵ Importantly, the European Commission notes that if third parties, such as customers, wish to express competition concerns as regards the transaction in question or to put forward views on key market data or characteristics that deviate from the notifying parties' then, *[a]ny point raised* should be substantiated and supported by examples, documents, and other factual evidence (emphasis added).¹⁶

CONCLUSION

If the government is to continue to heavily rely on customer testimony regarding the potential adverse effects of a transaction, their complaints must be viewed with more skepticism at the initial stages when deciding whether to challenge a merger. The *Oracle* and *Arch Coal* decisions may be limited in their precedential impact given their specific facts. However, these decisions indicate that under any theory of competitive harm, federal district courts will insist that the government offer concrete and objective evidence that the merger will substantially lessen competition. Evidence such as economic or expert testimony that is based on subjective analyses or unsubstantiated predictions about the future will not be sufficient. Antitrust counselors will, therefore, now be advising their clients that only irate customers with expert economic evidence and quantitative analyses demonstrating actual injury to competition should not be underestimated.

But in October 6, 2004, the newly appointed Chairman of the FTC, Deborah Majoras, announced at an antitrust seminar at George Mason University School of Law that the Commission would continue to base its merger challenges on customer complaints. Chairman Majoras noted that customer complaints represent a real world test of whether deals hurt competition.¹⁷

¹³ European Commission, Best Practices on the conduct of EC merger control proceedings, Para. 34.

¹⁴ *Id.* at Para. 35.

¹⁵ *Id.* at Para. 36.

¹⁶ *Id.* at Para. 37.

¹⁷ Jaret Seiberg, *The Daily Deal*, "DOJ says EC should clear Oracle-Peoplesoft," October 6, 2004.

PRIVATE PARTY MERGER CHALLENGES

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I. INTRODUCTION

Over the years, private enforcers have played a valuable role in preventing anti-competitive conduct, supplementing a governmental enforcement regime that cannot challenge all illegal behavior given its resource limitations and informational deficiencies. Today, private parties continue to challenge anti-competitive mergers, helping to maintain a competitive balance in the economy. However, under the Supreme Court's antitrust injury doctrine, only certain parties are permitted to challenge an anti-competitive merger. This article examines the current antitrust injury jurisprudence in order to flesh out the circumstances in which a private party will be permitted to launch a merger challenge.

Private party suits are explicitly permitted by section 4 of the Clayton Act, which provides that "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue . . ." Despite (or perhaps because of) the simplicity of this directive, the extent to which courts have allowed private parties antitrust suits has varied significantly over the years, leading at times to disagreement and confusion among the circuits.² According to one commentator, the conflict between the self-interested agenda of private antitrust enforcers and the public importance of competition goals presents "as demanding and challenging a task as any that confronts the judiciary."³

The Supreme Court first attempted to modernize the law regarding standing for private plaintiff suits in 1977 with *Brunswick Corp. v. Pueblo Bowl-O-Mat*, an extraordinarily influential decision that introduced the concept of "antitrust injury."⁴ Over the next thirteen years, this doctrine was further drawn out in a series of four additional Supreme Court cases: *Blue Shield of Virginia v. McCready*,⁵ *Associated General Contractors of California, Inc. v. California State Council of Carpenters*,⁶ *Cargill, Inc. v. Monfort of Colorado, Inc.*,⁷ and *Atlantic Richfield Co. v. USA Petroleum Co.*⁸ While these cases answered many important questions, they have also left unresolved some key issues pertaining to the nature of antitrust injury, and this has led to divergences among the different circuits over the past decade and a half.

This article focuses on the ability of private plaintiffs to challenge mergers that violate section 7 of the Clayton Act, and sections 1 or 2 of the Sherman Act.⁹ Specifically, it will examine the state of the law regarding merger challenges by customers, competitors, and tender offer targets.

1 Clayton Act, 15 U.S.C.A. Sections 12-27 (West Supp. 1997).

2 For a historical recapitulation, see, generally, Kevin D. Gordon, *Private Antitrust Standing: A Survey and Analysis of the Law After Associated General*, 61 WASH U. L. Q. 1069 (1984).

3 Joseph F. Brodley, *Antitrust Standing in Private Merger Cases: Reconciling Private Incentives and Public Enforcement Goals*, 94 MICH. L. REV. 1, 2 (1995).

4 429 U.S. 477 (1977).

5 457 U.S. 465 (1982).

6 459 U.S. 519 (1983).

7 479 U.S. 104 (1986).

8 495 U.S. 328 (1990).

9 Sherman Anti-Trust Act, 15 U.S.C.A. Sections 1-7 (West Supp. 1997). It should be noted in passing that while this article deals solely with antitrust injury doctrine, which is but one facet of the standing requirement in antitrust cases. One case has described the standing requirement in antitrust cases as encompassing five factors: (1) the motive of the defendant-whether it specifically intended to cause the plaintiff harm; (2) whether the plaintiff's injury is "an injury of the type the antitrust laws were intended to prevent" as required under *Brunswick*; (3) the directness of the causal connection between the violation and the injury; (4) the extent to which abstract speculation underlies the allegations of injury and of their causation by defendant's antitrust violations; and (5) the risk of duplicate recoveries or complex apportionment of damages if plaintiffs such as this are permitted to recover. See *Los Angeles Mem'l Coliseum Comm'n v. Nat'l Football League*, 791 F.2d 1356, 1363 (9th Cir. 1986).

While there are some circuits that are relatively hostile to private party merger challenges, firms should be aware that antitrust suits in many circumstances remain a viable option and, with treble damages and cost-shifting statutes,¹⁰ potentially a very remunerative one.

II. *BRUNSWICK AND CARGILL*

The modern era of antitrust injury analysis properly begins with *Brunswick Corp. v. Pueblo Bowl-O-Mat*. Brunswick, a large manufacturer and seller of bowling equipment, had purchased bowling alleys in a number of locations, including three cities where Treadway's subsidiaries operated alleys. Treadway claimed that Brunswick's acquisition constituted unlawful monopolization or attempted monopolization, and filed suit under section 7 of the Clayton Act. The main question addressed in the case was whether a competitor could sue for treble damages in a section 7 suit, with the damages based on the amount of profits the plaintiff company would have earned had the acquisition not taken place and the acquired companies had gone out business.

The Third Circuit ruled in Treadway's favor, claiming that this was a case of first impression; the first private damages action ever filed under section 7. The Supreme Court reversed the Third Circuit's ruling, holding that section 4 of the Clayton Act provides a damage remedy only for "antitrust injuries," which it defined as injuries that are "of the type the antitrust laws were designed to prevent and that flow[] from that which makes defendants' acts unlawful."¹¹ Treadway had experienced no antitrust injury because whatever harm they had suffered from Brunswick purchasing their competitors and preventing them from failing was unconnected to the rationale for the antitrust liability rule at issue. The Court went on to explain that "[e]very merger of two existing entities into one, whether lawful or unlawful, has the potential for producing economic readjustments that adversely affect some persons."¹² Because some of these injuries would result whether or not the merger is deemed unlawful, permitting compensation for all injuries would "authorize damages for losses which are of no concern to the antitrust laws."¹³

In the years immediately following Brunswick, there was disagreement among the circuits as to whether the antitrust injury standard that had been laid out with reference to damages claims in Brunswick also pertained to pleas for injunctive relief. Courts in the Second and Seventh Circuits granted standing to sue for equitable relief without reference to *Brunswick*,¹⁴ while courts in the First, Ninth and Tenth Circuits disagreed, demanding a showing of antitrust injury in suits for both injunctive relief and damages.¹⁵

With *Cargill, Inc. v. Monfort of Colorado, Inc.*,¹⁶ the Supreme Court expanded the Brunswick antitrust injury test to limit actions for injunctive relief. The facts of the case involve a plea by Monfort, the fifth largest beef packer in the country, to enjoin a merger between Cargill/Excel and Spencer Beef, the second and third largest beef packers in the country, respectively, under section 7 of the Clayton Act. Monfort claimed that it would be harmed by the increase in the defendants' market share, which would allow the combined company to lower prices to consumers and would also lead to higher prices paid to ranchers.¹⁷

The *Cargill* Court employed *Brunswick's* antitrust injury analysis to rule in favor of the defendants on standing grounds, stating that it would be "anomalous [] to read the Clayton Act to

¹⁰ Prevailing plaintiffs are authorized to recover attorney's fees in antitrust actions, see *American Soc'y of Mech. Eng'rs, Inc. v. Hydrolevel*, 456 U.S. 556 (1982).

¹¹ *Brunswick Corp. v. Pueblo Bowl-O-Mat*, 429 U.S. 477, 489 (1977).

¹² *Id.* at 487.

¹³ *Id.*

¹⁴ See, e.g., *Grumman Corp. v. LTV Corp.*, 665 F.2d 10, 16 (2d Cir. 1981); *Whittaker Corp. v. Edgar*, 535 F. Supp. 933, 950 (N.D. Ill. 1982).

¹⁵ See *Cent. Nat'l Bank v. Rainbolt*, 720 F.2d 1183, 1186-87 (10th Cir. 1983); *ADM Corp. v. Sigma Instruments, Inc.*, 628 F.2d 753 (1st Cir. 1980); *Carter Hawley Hale Stores, Inc. v. The Limited, Inc.*, 587 F. Supp. 246, 250 (C.D. Cal. 1984).

¹⁶ 479 U.S. 104 (1986).

¹⁷ In the lower court proceedings, the district court initially enjoined the proposed merger, holding that Monfort's allegation of "price-cost 'squeeze'" that would "severely narrow[]" Monfort's profit margins constituted an allegation of antitrust injury. See *Monfort of Colo., Inc. v. Cargill, Inc.*, 591 F. Supp. 683, 691-92 (D. Colo. 1983). It also held that Monfort had shown that the proposed merger would cause this profit squeeze to occur, thus violating section 7 of the Clayton Act. *Id.* at 709-10. The Tenth Circuit affirmed on appeal, finding that Monfort's allegation of a "price-cost squeeze" constituted an injury in the "form of predatory pricing in which Excel will drive other companies out of the market by paying more to its cattle suppliers and charging less for boxed beef that it sells to institutional buyers and consumers." *Monfort of Colo., Inc. v. Cargill, Inc.*, 761 F.2d 570, 575 (10th Cir. 1985).

authorize a private plaintiff to secure an injunction against a threatened injury for which he would not be entitled to compensation if the injury actually occurred.”¹⁸ However, while the Antitrust Division had argued in an amicus curiae that the Court should adopt a blanket prohibition against private party plaintiffs seeking injunctions, the Supreme Court refused to go this far. Rather, the Court explicitly concluded that a competitor would have standing to challenge a merger if they could allege a “credible threat of injury from below-cost pricing.”¹⁹ The Court noted that while predatory pricing may be rare, “it would be novel indeed for a court to deny standing to a party seeking an injunction against threatened injury merely because such injuries rarely occur.”²⁰

Cargill clarified that antitrust injury analysis must be undertaken prior to allowing challenges of injunctions. However, a number of open questions remain as to how *Cargill* should be interpreted in certain situations. Three current issues are: (1) under what circumstances consumers can challenge a merger for antitrust reasons, (2) when competitors have standing to challenge a merger absent a provable threat of predatory pricing, and (3) whether tender offer targets have standing to challenge a merger for antitrust reasons.²¹

a) Customer standing

It is worth examining the interpretation of antitrust injury requirements for consumers who wish to challenge an anti-competitive merger. In many circumstances, consumers are the segment most likely to suffer antitrust injury from an anti-competitive merger, as they would be the ones paying the monopolistic prices that antitrust laws are meant to prevent. In fact, according to the court in *Community Publishers, Inc. v. Donrey Corp.*, “consumers have usually been the preferred plaintiff in private antitrust litigation.”²² However, there have been relatively few consumer challenges to mergers because individuals tend not to have a large enough stake in the matter to justify the investments of an antitrust lawsuit, while class actions are difficult to organize in the merger context.

1) Cases where customer standing has been granted

In *Nelson v. Monroe Regional Medical Center*,²³ the plaintiffs, an eighteen year-old woman and her mother, alleged that a merger between the Monroe Clinic and the Monroe Medical Center—the only two health care facilities in Monroe, Wisconsin—had allowed those providers to monopolize the market for medical services in Monroe and its environs, in violation of sections 1 and 2 of the Sherman Act. The plaintiffs claimed antitrust injury because the merged facility, which had cared for plaintiffs in the past, refused to treat them post merger, except on an emergency basis, in retaliation for their having previously filed a malpractice action against one of the clinic’s physicians. This forced the plaintiffs to travel to another city to receive care. The district court dismissed the plaintiffs’ claim on grounds that that they had failed to show antitrust injury.²⁴

On appeal, the Seventh Circuit reversed the district court’s ruling, claiming that the denial of care to the plaintiffs constituted an output reduction, which was exactly the type of antitrust injury that one would expect from an anti-competitive merger. The court asserted that “[m]onopolists are more likely to turn away prospective clients because they do not feel the same competitive pressure to

18 *Cargill*, 479 U.S. at 112. In a vigorous dissent, Justice Stevens, joined by Justice White, embraced a much more lenient standard of proof for antitrust injury, asserting that “businesses—small or large—that face competition in a market altered by an illegal merger are directly affected by that transaction. Their inability to prove exactly how or why they may be harmed does not place them outside the circle of interested parties whom the statute was enacted to protect.” *Id.* at 127-28 (Stevens, J., dissenting).

19 *Id.* at 118.

20 *Id.* at 122.

21 Associations are another type of plaintiff that is sometimes able to challenge mergers. See, e.g., *Appraisers Coalition v. Appraisal Inst.*, 845 F. Supp. 592 (N.D. Ill. 1994). Associations can generally only sue for injunctive relief on behalf of their members. See, e.g., *Warth v. Seldin*, 422 U.S. 490 (1975); *American Chiropractic Ass’n v. Trigon Healthcare*, 151 F. Supp. 2d 723 (W.D. Va. 2001). According to the Supreme Court in *Hunt v. Washington State Apple Advertising Commission*, 432 U.S. 333 (1977), associations have standing to bring suit on behalf of their members when: (1) the members would otherwise have standing to sue for themselves; (2) the interests the association seeks to protect are “germane to the organization’s purpose”; and (3) neither the claim asserted nor the relief requested requires the participation of individual members in the lawsuit. *Id.* at 343. Of course, as the first factor of the above test suggests, an association must show that its members have suffered an antitrust injury, however “individualized proof” of antitrust injury to all members of the association is not necessarily required. See *Appraisers Coalition*, 845 F. Supp. 592 at 601-02. According to the D.C. Circuit, it is enough if just one member of the association would otherwise have standing. See *City of Waukesha v. EPA*, 320 F.3d 228, 235-37 (D.C. Cir. 2003) (*per curiam*); *Consumer Fed’n of America v. FCC.*, 348 F.3d 1009, 1012 (D.C. Cir. 2003) (granting standing in unsuccessful challenge to FCC approval of cable television company merger).

22 892 F. Supp. 1146, 1167 (W.D. Ark. 1995) (citing 2 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW Paragraph 370 (rev. ed. 1995)).

23 925 F.2d 1555 (7th Cir. 1991).

24 See *id.* at 1562.

serve all comers.²⁵ According to a concurring opinion, the plaintiffs suffered “the very essence of antitrust injury. Although perhaps not a matter of major moment in dollars and cents, the merger and the related refusal to deal strike at the very heart of the evils addressed by the antitrust laws.”²⁶

In *AlliedSignal, Inc. v. B.F. Goodrich Co.*,²⁷ another Seventh Circuit case, the court of appeals approved the district court’s decision to grant AlliedSignal standing to preliminarily enjoin a proposed merger between B.F. Goodrich and Coltec Industries, this time in the field of aircraft landing gear.²⁸ AlliedSignal, which both competed with B.F. Goodrich and purchased Goodrich products, alleged a number of harms from the merger. Firstly, AlliedSignal had contracted to prepare joint bids on landing systems with Coltec under a Strategic Alliance Agreement, and was afraid that B.F. Goodrich would have access to proprietary information shared under that agreement if the merger was allowed.²⁹ Secondly, it feared higher prices for the wheels and brakes that it purchased from B.F. Goodrich. Lastly, it feared that B.F. Goodrich could leverage its dominant post-merger position to favor its own wheels and brakes over AlliedSignal’s in the formation of integrated landing systems.³⁰

Initially, B.F. Goodrich argued to the Seventh Circuit that the antitrust claim should be arbitrated, and the district court’s preliminary injunction should be dissolved upon establishment of an arbitration panel.³¹ B.F. Goodrich asserted that arbitration was necessary because the joint bidding contract between AlliedSignal and Coltec contained an arbitration clause, and antitrust injury in this case was dependent on the parties failing to abide by that contract. The court firmly rejected this arbitrability argument, noting that antitrust injury could result from B.F. Goodrich charging uncompetitive prices, even if the joint bidding agreement were still in effect.

B.F. Goodrich also challenged AlliedSignal’s antitrust standing, arguing that AlliedSignal’s claim was based only on B.F. Goodrich and AlliedSignal’s competition in the sales of wheels and brakes. Without addressing the issue of competitor standing, the court dismissed this argument, holding that AlliedSignal possessed standing to sue because it would be affected by the merged entity’s anti-competitive pricing as a purchaser of B.F. Goodrich’s wheels and brakes (AlliedSignal would integrate the wheels and brakes with landing gear and brake control systems to form a complete landing system).³³ Soon after the Seventh Circuit’s decision upholding the preliminary injunction, B.F. Goodrich and Coltec reached a settlement with AlliedSignal and proceeded with the merger.

Finally, in the more recent case of *Reilly v. The Hearst Corp.*, a newspaper subscriber brought suit to prevent the acquisition of a morning paper by the publisher of an afternoon paper, which would be followed by the planned closure of the afternoon paper.³⁴ The court held that the subscriber had standing to challenge a proposed merger that would “cause injury to competition for readers among economically viable newspapers.”³⁵ The court also mentioned that there would be two other possible bases of antitrust standing to challenge the transaction: plaintiffs could allege antitrust injury as advertisers or as competing publishers.³⁶ Advertiser standing was in fact granted in the newspaper merger case *Community Publishers, Inc. v. Donley Corp.*, due to the threat of the dominant newspaper raising its rates.³⁷

2) Cases where customer standing has been denied

City of Pittsburgh v. West Penn Power Co., on the other hand, is a case where standing to challenge a merger was denied, although the precedential value of the case is limited because it

²⁵ *Id.* at 1564.

²⁶ *Id.* at 1568 (Cudahy, J., concurring).

²⁷ 183 F.3d 568 (7th Cir. 1999). AlliedSignal’s challenge came the day after the \$2.06 billion deal was cleared by the FTC. The Department of Defense had also approved the merger.

²⁸ *See id.* at 570. The court noted that there is no reason to believe that “the failure of either the FTC or the Department of Defense to object to the merger should be regarded as conclusive of its legality.” *Id.* at 575.

²⁹ *See AlliedSignal*, 183 F.3d at 571.

³⁰ *See id.*

³¹ *See id.*

³² *See id.* at 576.

³³ *See id.* at 576.

³⁴ *See* 107 F. Supp. 2d 1192 (N.D. Cal. 2000).

³⁵ *Id.* at 1195.

³⁶ *See id.*

³⁷ *See* 892 F. Supp. 1146, 1167 (W.D. Ark. 1995).

involved regulated utilities.³⁸ Here, the City of Pittsburgh filed suit against West Penn Power and Duquesne Light Company, alleging that the two companies entered into a pre-merger agreement in restraint of trade and that their proposed merger would substantially lessen competition or tend to create a monopoly. The City claimed that an agreement between Allegheny Power and Duquesne Light to withdraw Allegheny Power's application before the Pennsylvania Public Utility Commission to provide electric service to two Redevelopment Zones within the City violated section 1 of the Sherman Act, and that the proposed merger violated section 7 of the Clayton Act.

The court dismissed for lack of antitrust injury, claiming that the City's "inability to choose to buy from either Allegheny Power or Duquesne Light for the Redevelopment Zones is an injury visited upon it by the regulated nature of utility services, not caused by an agreement between Duquesne Light and Allegheny Power to withdraw Allegheny Power's application to be able to compete."³⁹ The court stressed that the Public Utility Commission did not allow for competition between the two utilities in the Redevelopment Zones. Importantly, however, the Third Circuit did not question the fact that under proper circumstances a consumer could prove antitrust injury stemming from a proposed merger, finding that the *Brunswick* ruling had broader applicability than just competitor challenges. The Third Circuit's decision has been vigorously criticized for short-circuiting the factual analysis by simply declaring that antitrust law does not protect potential competition, without further examination.⁴⁰

b) Competitor standing

1) Cases where competitor standing has been granted

As noted earlier, *Cargill* sets a difficult standard for competitor plaintiffs to meet, explicitly granting standing only in cases where a rival can allege predatory pricing. In fact, certain courts have interpreted the *Cargill* mandate relatively broadly, allowing claims to go forward that allege market foreclosure more than predatory pricing.

One of the first cases to interpret Brunswick's antitrust injury requirement for competitors of a merging firm was *Heattransfer v. Volkswagenwerk A.G.*⁴¹ Heattransfer was an independent supplier of automobile air conditioners that filed suit when Volkswagen of America ("VWoa"), one of the largest air conditioning customers in the market, acquired Delanair, a competing air conditioner supplier, thus foreclosing Heattransfer from competing for Volkswagen's business. The Fifth Circuit ruled that Heattransfer did suffer an antitrust injury, and awarded treble damages. According to the court, "by acquiring Delanair, VWoa virtually precluded any of the competitors in the Volkswagen air-conditioning unit market from openly competing with the VWoa company It was to VWoa's advantage to deal as much as possible with VPC/Delanair to the exclusion of other competitors and competition. Such a consequence is surely an antitrust injury that reflects 'the anticompetitive effect either of the violation or of anticompetitive acts made possible by the violation.'"⁴²

More recently, two post-*Cargill* cases that have allowed for competitor standing are *R.C. Bigelow, Inc. v. Unilever N.V.*⁴³ and *Bon-Ton Stores, Inc. v. May Department Stores Co.*⁴⁴ *Bigelow* involved a challenge by Bigelow, the smallest of the three firms in the herbal teas market, against a proposed merger of the two largest firms: Celestial Seasonings (with a 52% market share) and Lipton (with a 52% market share). The district court dismissed for failure to allege antitrust injury, but the Second Circuit reversed, reasoning that the large market share of the combined firm would be likely to eliminate competition by, among other things, reducing Bigelow's access to supermarket shelf

38 147 F.3d 256 (3d Cir. 1998).

39 *Id.* at 266.

40 See Ronald Davis, *Standing on Shaky Ground: The Strangely Elusive Doctrine of Antitrust Injury*, 70 ANTITRUST L. J. 697 (2003). The opinion can be contrasted with the district court opinion in *Square D Co. v. Schneider*, 760 F. Supp. 362 (S.D.N.Y. 1991), which states, in reference to the granting of standing in *Consolidated Gold Fields PLC v. Minorco, S.A.*, 871 F.2d 252 (2d Cir. 1989), that it "does not read [the *Gold Fields* opinion] as turning on the presence of actual, as opposed to potential, competition between the acquirer and the target . . . the reasoning of Judge Newman [in *Gold Fields*] would apply with equal force to the loss of potential competition." *Square D*, 760 F. Supp. at 364.

41 553 F.2d 964 (5th Cir. 1977).

42 *Id.* at 985 (quoting *Brunswick v. Pueblo Bowl-O-Mat*, 429 U.S. 477, 489 (1977)).

43 867 F.2d 102 (2d Cir. 1989).

44 881 F. Supp. 860 (W.D.N.Y. 1994).

space.⁴⁵ The *Bigelow* court distinguished the facts of its case from those in *Cargill* by emphasizing that it was dealing with a preliminary injunction (as opposed to a permanent injunction) and that the case against the Lipton-Celestial Seasonings merger was much stronger than was the case against the Cargill-Spencer Beer merger.

The *Bigelow* court explicitly declined to follow *Phototron Corp. v. Eastman Kodak Co.*,⁴⁶ an earlier Fifth Circuit decision which held that on an application for a preliminary injunction, competitors must “supply evidence of predatory behavior demonstrating a substantial likelihood that the plaintiff will be injured.”⁴⁷ Rather, the *Bigelow* court held that “a demonstrated probability at the preliminary injunction stage that a merger will adversely affect competition in the relevant market is sufficient in order to survive a motion for summary judgment.”⁴⁸

Since *Bigelow*, courts in the Second Circuit have shown a greater likelihood to grant injunctions in merger cases. One example of this is *Bon-Ton v. May*, where the court stated that “[d]oubts as to the necessity of issuing a preliminary injunction should be resolved in favor of granting the injunction.”⁴⁹ Here, Bon-Ton, an upstate New York department store chain, challenged May’s acquisition of twelve department stores in the Rochester area, claiming that by acquiring two of the only available mall sites in the area, May would significantly raise Bon-Ton’s entry barriers in the market. The district court accepted Bon-Ton’s challenge, noting that elevated entry barriers were sufficient to satisfy the antitrust injury requirement, as Bon-Ton’s injury stemmed from the same anti-competitive behavior that would cause higher prices to consumers.

One recent case of particular interest is *Union Carbide Corp. v. Montell N.V.*,⁵⁰ where Judge Scheindlin of the Southern District of New York granted standing to a plastic technology licensor to challenge a merger between the licensor’s co-venturer and its competitors. The court premised standing on the licensor’s allegations that its competitors’ goals were to restrict output, increase prices, limit introduction of advanced technology, realize supra-competitive profits and harm competition.⁵¹ While the defendants countered that the plaintiff would actually benefit from any lessening of competition, the court rejected this argument without comment, noting only that United Carbide had adequately alleged that any harm they had suffered was the result of the defendants’ actions.⁵²

Outside of the Second Circuit, courts have been less likely to grant standing for competitors to challenge mergers, but there have been successful challenges. For example, in *Fricke-Parks Press v. Fang*,⁵³ the court granted standing for the plaintiff’s Sherman Act challenge to a merger between two rival publishers. Fricke-Parks Press, a commercial printer, challenged an agreement whereby Hearst (the publisher of the San Francisco Examiner) transferred \$66 million and other assets to Exin (a commercial printer and newspaper publisher) in exchange for Exin’s support of the Examiner’s acquisition of the San Francisco Chronicle from the Chronicle Publishing Company. Fricke-Parks alleged that the asset transfer was an illegal conspiracy to divide markets, allowing Hearst to dominate the newspaper market, while Exin would use the proceeds from the agreement to underbid in the commercial printing market, in order to drive Fricke-Parks out of business. The court allowed the claim to proceed, noting that Fricke-Parks alleged injuries “properly reflect the anticompetitive effect of a division of allocation of markets.”⁵⁴

In *Community Publishers, Inc. v. DR Partners*,⁵⁵ also a newspaper merger challenge, the court granted standing where the competitor plaintiff’s profits as a purchaser of newspaper advertising were threatened by the challenged acquisition of one leading local daily newspaper by a competing paper. Standing was granted for two reasons. Firstly, the court saw antitrust injury in a prospective “must buy” phenomenon, whereby the merged papers would have such a dominant market share that a

45 *Bigelow*, 867 F.2d at 111.

46 842 F.2d 95, 100 (5th Cir.), cert. denied, 486 U.S. 1023, 108 S. Ct. 1996, 100 L. Ed. 2d 228 (1988).

47 *Id.* at 102.

48 *Bigelow*, 867 F.2d at 109.

49 *Bon-Ton*, 881 F. Supp. at 878 (citing *Consolidated Gold Fields PLC v. Minorco, S.A.*, 871 F.2d 252, 261 (2d Cir. 1989)).

50 944 F. Supp. 1119 (S.D.N.Y. 1996).

51 *See id.* at 1149.

52 *See id.* at 1150.

53 149 F. Supp. 2d 1175 (N.D. Cal. 2001).

54 *Id.* at 1181.

55 139 F.3d 1180 (8th Cir. 1998).

monopolistic increase in the combination's advertising rates would soak up all the region's available advertising revenue and harm the plaintiff. Secondly, the merger was found to give incentive to the defendant to terminate a news and advertising sharing arrangement with the plaintiff.

2) Cases where competitor standing has been denied

With the exception of *Fricke-Parks Press v. Fang*,⁵⁶ which was really more about illegal market division than predatory pricing, there have yet to be any competitor merger challenges that successfully allege a textbook predatory pricing threat, the one type of proof explicitly endorsed by the *Cargill* court. This is unsurprising, perhaps, given the difficult test for predatory pricing that the Supreme Court promulgated in its 1993 *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*⁵⁷ decision. There have been a few cases that have challenged a merger on the grounds that the combined company would engage in predatory pricing tactics, only to fail in some aspect of their proof.

For example, in *Pool Water Products v. Olin Corp.*,⁵⁸ the plaintiffs, Aqua Tri and Pool Water Products, alleged that a competitor, Olin and Superior Pool Products, illegally acquired a dry chemical manufacturer, among other anti-competitive activities. The plaintiffs alleged that the acquisition was part of an unlawful scheme to acquire dominant position in the market by driving prices down, and subsequently raising prices to recoup through a predatory pricing scheme. The court denied standing because of weaknesses in the recoupment side of the plaintiff's case; while defendants did drive prices down, they "were never able to raise prices to supracompetitive levels."⁵⁹

The court also dismissed the importance of the plaintiff's decrease in market share, stating that "a decrease in profits from a reduction in a competitor's prices, so long as the prices are not predatory, is not an antitrust injury . . . [a]bsent proof of predation, it is immaterial whether the price reduction is the result of illegal price setting, illegal mergers and acquisitions, collusion, price discrimination or any other antitrust violation."⁶⁰ A similar result was reached in *Phototron Corp. v. Eastman Kodak Co.*,⁶¹ where the competitor-plaintiff failed to prove a likelihood of predatory pricing.

The Third Circuit denied the existence of antitrust injury in *Alberta Gas Chemicals Ltd. v. E.I. Du Pont De Nemours & Co.*⁶² Alberta Gas, a producer of methanol, asserted that Du Pont unlawfully eliminated potential competition when it acquired Conoco, which had been planning a major methanol production project prior to being acquired. As part of the planned methanol production project, Conoco had apparently planned to buy large quantities of methanol from existing producers such as Alberta Gas to resell as a method of stimulating demand. Alberta Gas claimed that Du Pont's acquisition caused this program to be abandoned, and it therefore lost the methanol sales it would have made to Conoco, and methanol prices were lower than they would have been if the demand stimulation program had been implemented.

The Third Circuit rejected this argument on antitrust injury grounds, asserting that even if the merger were illegal and plaintiffs would be injured in the manner claimed, the injuries stemming from the cancellation of the demand stimulation plans do not "flow 'from that which makes the defendants' acts unlawful,'" because they have nothing to do with increased market power in the methanol-producing industry.⁶³ The court also held that any foreclosed methanol sales to Conoco would be too de minimis to constitute a section 7 violation.⁶⁴

c) Tender Offer Targets

In the years since *Cargill*, there has been considerable debate and divergence among the courts and commentators on the issue of standing for the target of a tender offer to challenge its

56 149 F. Supp. 2d 1175 (N.D. Cal. 2001)

57 509 U.S. 940 (1993).

58 258 F.3d 1024 (9th Cir. 2001).

59 *Id.* at 1035.

60 *Id.*

61 842 F.2d 95 (5th Cir. 1988).

62 826 F.2d 1235 (3d Cir. 1987).

63 *See id.* at 1240.

64 *See id.* at 1236.

merger on antitrust grounds. As the cases discussed in this section demonstrate, much of this debate boils down to serious questions regarding whether a target's loss of independence can be considered an antitrust injury and the significance (or insignificance) of the motive of an antitrust plaintiff. It is likely that the Supreme Court will have to step in and resolve the issue of whether tender offer targets can suffer an antitrust injury.

1) Cases where standing has been granted

Consolidated Gold Fields PLC v. Minorco, S.A.,⁶⁵ is the leading case to grant standing to a tender offer target. The case involved a section 7 claim by the leading U.S. gold producer against a bid to acquire controlling interest by the dominant South African gold producer. The plaintiff claimed antitrust injury because the bidder would, if victorious, favor its own wholly owned South African production at the expense of production in its partially owned U.S. subsidiary. The Second Circuit ruled in favor of the plaintiff, finding that its antitrust injury was due to the ability of "outside corporate forces to cause it to restrain its own competitiveness."⁶⁶ In so ruling, the *Gold Fields* court interpreted *Cargill* to allow for standing where the target's "loss of independence is causally linked to the injury occurring in the marketplace, where the acquisition threatens to diminish competitive forces."⁶⁷ The court emphasized that it is in the public interest for tender offer targets to have the ability to effectively enforce the antitrust laws: "[c]onsumers are unlikely to face the prospect of suffering a sufficient amount of damage to justify the cost of seeking a pre-acquisition injunction. The target of a proposed takeover has the most immediate interest in preserving its independence as a competitor in the market."⁶⁸

The *Gold Fields* decision was applauded by Joseph Brodley in an influential 1996 article. According to Brodley's analysis, the target of a tender offer should normally have standing to challenge an anticompetitive takeover on antitrust grounds because the transaction would threaten three possible forms on antitrust injury:

(1) collusion-induced output reduction harmful to the target and its constituents in both partial and full acquisitions of shares; (2) possible loss of trade secrets, confidential information, and other intellectual property injuring the target's competitive viability if the merger is not consummated; and (3) termination of its corporate existence in contravention of a merger law intended to preserve the independence of firms threatened by anticompetitive acquisitions.⁶⁹

The Southern District relied on the *Gold Fields* decision to deny a motion to dismiss a target's antitrust claim in *Square D Co. v. Schneider*, stating simply that they were bound to follow the *Gold Fields* holding as the law of the Second Circuit.⁷⁰

2) Cases where standing has been denied

Other circuits have chosen to not allow standing for tender offer targets, reasoning that even if the level of competition decreases due to the merger, the target company does not suffer an antitrust injury, because after the transaction is complete, it will be "part of the very entity it claims will have a supercompetitive advantage."⁷¹ In *Anago, Inc. v. Tecnol Medical Products, Inc.*, the Fifth Circuit explicitly declined to follow the Second Circuit's lead, stating that it preferred to "narrowly interpret the meaning of antitrust injury."⁷²

The *Anago* court expressed two disagreements with the Second Circuit's analysis. First, it argued that the Second Circuit's emphasis on a causal relationship between the loss of independence and the alleged antitrust violation did not comport with the precedent from Brunswick. Next, the

65 871 F.2d 252, 257-60 (2d Cir. 1989), cert. dismissed, 492 U.S. 939 (1989).

66 *Id.* at 257.

67 *Id.* at 258.

68 *Id.* at 260.

69 See *supra*, note 3, at 81.

70 760 F. Supp. 362, 364 (S.D.N.Y. 1991).

71 *Carter Hawley Hale Stores, Inc. v. The Limited, Inc.*, 587 F. Supp. 246, 250 (C.D. Cal. 1984).

72 976 F.2d 248 (5th Cir. 1992).

Fifth Circuit claimed that the loss of independent decision making is not the “type of injury meant to be prevented by the antitrust laws.”⁷³ This was partly based on precedent from the Phototron decision, which established that the meaning of antitrust injury should be narrowly construed.⁷⁴

In *Burlington Industries Inc. v. Edelman*,⁷⁵ the Fourth Circuit affirmed a district court decision denying standing to a tender offer target. According to the district court’s opinion, “the type of injury about which a target . . . complains-potential loss of employees, possible diversion of customers to other businesses, and loss of trade secrets and financial information-are not injuries that occur because of the potential lessening of competition attending the merger. Rather, these injuries occur because of a change in corporate control.”⁷⁶

The district court in *Burlington* emphasized the importance of proper motive or lack thereof for the tender offer target, stating that “a court should not interfere with a tender offer unless the target company dispels the inference of disingenuousness by showing that the alleged antitrust violation would expose it to readily identifiable harm.”⁷⁷ The facts of *Burlington* showed a particular strong inference of disingenuousness, as the plaintiff had previously indicated a desire to acquire the defendant, which would have created the same combination that it now claimed would unlawfully diminish competition.⁷⁸

3) *Atlantic Coast Airline Holdings v. Mesa Air Group*

The issue of standing for tender offer targets was addressed most recently in *Atlantic Coast Airline Holdings v. Mesa Air Group*.⁷⁹ Atlantic Coast operated a regional air carrier under the United Express and Delta Connection brands. On July 28, 2003, Atlantic coast announced that it would transform itself into a low-fare airline based out of Dulles Airport, in anticipation of United’s rejection of their code-sharing agreement as part of the United bankruptcy reorganization. In response, Mesa Air, a fellow regional air carrier, announced an unsolicited tender offer for the stated purpose of keeping Atlantic in its role as a United Express carrier. The offer was made pursuant to a memorandum of understanding (MOU) whereby United agreed that if Mesa successfully acquired Atlantic Coast or replaced its Board with members that wished to stay with United, then Atlantic Coast could retain its status as an United Express carrier (instead of establishing a low-fare airline).

Atlantic Coast sought a preliminary injunction against the tender offer under both section 7 of the Clayton Act and section 1 of the Sherman Act (among other claims).⁸⁰ Atlantic Coast alleged both a collusion-induced reduction in output from the acquisition as well as antitrust injury stemming from its impending loss of independence.

The D.C. district court dismissed the less important section 7 claim for lack of antitrust injury.⁸¹ In dismissing the section 7 claim, the court declined to choose between the Second Circuit’s *Gold Fields* analysis and the Fifth Circuit’s analysis in *Anago*, instead claiming that Atlantic Coast would not have standing under either mode of analysis.⁸² The court decided that unlike in *Gold Fields*, there would be no loss of independent decision-making here, as the Atlantic Coast shareholders would have the opportunity through a consent solicitation to determine whether to elect Mesa nominees to the Board, thereby giving them the deciding voice as to whether or not the acquisition should take place.⁸³

73 *Id.* at 250-51.

74 See *Phototron Corp. v. Eastman Kodak Co.*, 842 F.2d 95 (5th Cir. 1988). The *Anago* decision was followed within the Fifth Circuit by the district court in *Moore Corp. Ltd. v. Wallace Computer Services, Inc.*, 907 F. Supp. 1545, 1566 (D. Del. 1995). The *Moore* court gave three reasons for declining to allow for tender offer target standing: (1) any alleged injury suffered by a merger target would be “inherent to the merger process rather than flowing from any anticompetitive effect of the merger”; (2) the target and its shareholders would ultimately benefit from increased prices or decreased competition stemming from the merger; and (3) that courts have found that targets may bring disingenuous antitrust suits whose motive is to prevent loss of control by management rather than anything antitrust-related. *Id.* at 1566.

75 1987 WL 91498 (4th Cir. Jun. 22, 1987).

76 *Burlington Industries Inc. v. Edelman*, 666 F. Supp. 799 (M.D.N.C. 1987).

77 *Id.* at 805-06.

78 For another opinion that questions the motives of management, see *Burnup & Sims, Inc. v. Posner*, 688 F. Supp. 1532, 1534 (S.D. Fla. 1988) (observing that an antitrust suit by a tender offer target “must be understood in its true sense, an attempt by the incumbent management to defraud their own positions, not as an attempt to vindicate any public interest”).

79 295 F. Supp. 2d 75 (D.D.C. 2003).

80 The D.C. Corporation Counsel and Commonwealth of Virginia filed an amicus brief in support of Atlantic Coast’s challenge, arguing that a preliminary injunction was necessary to give time for the D.C. and Virginia antitrust enforcement agencies to review the legality of the transaction.

81 *Atlantic Coast*, 295 F. Supp. 2d at 89.

82 *See id.*

83 *See id.*

The court, however, accepted that Atlantic Coast had demonstrated antitrust injury for the section 1 claim, finding that Atlantic Coast was able to show antitrust injury because it did not require a hostile takeover to take effect.⁸⁴ Rather, Atlantic Coast's Sherman Act challenge of United's MOU with Mesa fulfilled antitrust standing requirements because the MOU, if it kept Atlantic Coast from launching its low-price airline, would not benefit Atlantic Coast.⁸⁵ The agreement would rather be effecting "the type of injury the antitrust laws were designed to prevent."⁸⁶ After the D.C. district court preliminarily enjoined Mesa's proposed exchange offer and shareholder consent solicitation, the department of Justice announced that it had opened an investigation into the takeover bid. Soon afterwards, the takeover bid collapsed, with United canceling its MOU with Mesa.

III. CONCLUSION

As the preceding case descriptions indicate, anti-competitive mergers can be successfully challenged on antitrust grounds by private plaintiffs in a number of circumstances. Although the state of the case law varies by circuit (and in some areas has not yet been fully drawn out due to a dearth of cases filed in the post-*Brunswick* and post-*Cargill* era), private parties should keep in mind that the antitrust laws remain a powerful weapon against anti-competitive mergers even in cases where government agencies stay on the sidelines.

⁸⁴ *See id.* at 90.

⁸⁵ *See id.* The court later found that the United MOU would have the effect of cutting off potential competition, to United from the low cost airline. *See id.* at 93. The competition of a low cost airline would have led to an estimated passenger loss to United valued at half a billion dollars over two years. *See id.* at 80.

⁸⁶ *Id.* at 90 (citing *Andrx Pharm., Inc. v. Biovail Corp. Int'l*, 256 F.3d 799, 813 (D.C. Cir. 2001)).

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FOREWORD

Welcome to the first publication of our third Working Group, this one devoted to the Role of Economics in Antitrust. The Sedona Conference[®] is a nonprofit law and policy think tank based in Sedona, Arizona, dedicated to the advanced study, and reasoned and just development, of the law in the areas of complex litigation, antitrust law and intellectual property rights. It established the Working Group Series (the “WGSSM”) to bring together some of the nation’s finest lawyers, consultants, academics and jurists to address current issue areas that are either ripe for solution or in need of a “boost” to advance law and policy. (See Appendix B for further information about The Sedona Conference[®] in general, and the WGSSM in particular). WGSSM output is first published in draft form and widely distributed for review, critique and comment, including, where possible, in-depth analysis at one of our dialogue-based Regular Season conferences. Following this public comment period, the draft is reviewed and revised, taking into consideration what has been learned during the peer review process. The Sedona Conference[®] hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law and policy, both as these are and ought to be.

The Sedona Conference Working Group Addressing the Role of Economics in Antitrust was formed out of a desire to help bring some clarity and uniformity to the use, and reliance upon, expert economic evidence and testimony in the litigation of an antitrust case. It is hoped that the principles and commentary that follow will be of immediate benefit to the bench and bar as they approach these issues. It is our expectation that we will benefit greatly from the public comment process.

I want to thank the entire Working Group for all their hard work, and especially the chair and editor Daniel R. Shulman, Esq., who has guided this effort for the past year. We also want to note that the Working Groups of The Sedona Conference could not accomplish their goals without the financial support of their sponsors. This Working Group has been supported by the following sponsors for the last year - Founding Sponsor: Gray Plant Mooty and Simpson Thacher & Bartlett, and Supporting Sponsor: Constantine & Cannon.

To make suggestions or if you have any questions, or for further information about The Sedona Conference[®], its Conferences or Working Groups, please go to www.thesedonaconference.org or contact us at tsc@sedona.net.

Richard G. Braman
Executive Director
The Sedona Conference[®]
July 2005

INTRODUCTION

A. THE WORKING GROUP ON THE ROLE OF ECONOMICS IN ANTITRUST

The Working Group on the Role of Economics in Antitrust (WG3) was created by The Sedona Conference[®], a nonprofit research and education institute dedicated to the advanced study of law and policy in the areas of antitrust, complex litigation, and intellectual property. This Working Group is one of several Working Groups that have operated under the auspices of The Sedona Conference[®]. Other Working Groups have been (or are) concerned with electronic document retention and production, protective orders, confidentiality and public access, the intersection of the patent antitrust laws, and claim construction in patent litigation. The purpose of this Working Group is to define those areas of antitrust where economic analysis and economic evidence can make important contributions and to specify the nature and types of economic analysis and evidence that will be most helpful to courts in reaching decisions that will further the reasoned development of the law. The Working Group is also concerned with those areas of antitrust where economics may assume an inappropriate role that could be counterproductive in furthering the objectives of either the antitrust laws or of the Federal Rules of Civil Procedure.

In the mid-twentieth century, economic efficiency began to emerge as one of the principal goals of antitrust law. Some believe that efficiency should be the only goal, while others believe that antitrust law does (and should) embody other goals, such as protecting consumers, and perhaps that it should embrace noneconomic goals as well. In any event, the use of economic evidence and argument in antitrust cases has increased dramatically during the last several decades. As the brief history below of the use of economics in antitrust law suggests, economic issues gradually have overtaken noneconomic concerns so that, in the twenty-first century, economics has come to pervade virtually all aspects of antitrust cases, finding its way into every procedural step and numerous substantive issues.

In the spring of 2004, The Sedona Conference[®] Working Group on the Role of Economics in Antitrust was formed. The Working Group is composed of judges, attorneys, and academics experienced in antitrust issues. Initially, these participants focused their attention on a range of issues: best practices under Federal Rule of Civil Procedure 26 and Federal Rule of Evidence 702; best practices under Federal Rule of Civil Procedure 56; best practices for the use of economic evidence and testimony at trial; inappropriate use of economic evidence and testimony; the appropriate use of economic evidence and testimony in proof of concerted action; competitive harm and the appropriate means of proving it; and the use of economic evidence and testimony in analyzing and classifying commercial arrangements. Subgroups were formed to report on all of these matters.

The entire Working Group met for two days in mid-May 2004 to discuss the reports of the subgroups and to narrow the issues on which the Working Group would ultimately make recommendations. During that meeting, participants reviewed and discussed the subgroup reports as well as grappling generally with the appropriate approaches to the use of economics in antitrust, noting that the topic raises not only issues of procedure and timing, but also issues regarding the appropriate form of economic analysis; sufficiency, weight, and admissibility of economic evidence at trial; and the incorporation of substantive law in economic analysis. Working Group participants discussed numerous variations among circuits and district courts in the application of antitrust principles that run the gamut from inconsistency in defining basic terms for economic analysis to using economic analysis in situations where it is neither needed nor useful. Among the areas of confusion/divergence among the courts that the Group discussed were the following: proof of competitive harm and competitive benefit and their measurements; inconsistencies in the language used to analyze cases (*e.g.*, “business justification” vs. “efficiency”), with courts often using terms differently from both economists and the general business world; whether an economist can be useful to demonstrate evidence of intent; the types and amounts of proof needed to show concerted action in circumstantial cases; the best methods to identify and apply oligopoly principles when they become relevant in litigation; what evidence is necessary to show conduct contrary to economic self interest; the appropriate methods for establishing market power and for market definition; economists’ views on those subjects; and conditions other than market share that are indicative of market power.

In addition, participants discussed the increases in costs and complexity of litigation stemming from the increased use of economics (a prime example of which is the ubiquitous battle of the experts that inevitably occurs in antitrust cases, which has been rendered even more complex by the use of court-appointed experts, thus expanding and extending discovery and motion practice); whether economic experts are being asked to perform analyses they deem unproductive (such as using an economist to determine whether market power exists); and whether parties are using economic experts inappropriately at various stages of antitrust cases (such as when an expert opines on the merits of a case at the class certification stage).

Ultimately, the Working Group decided on a format aimed at providing immediate benefit to bench and bar by addressing both the present state of the law (highlighting issues that have not been addressed uniformly by the courts) and suggesting best practices for the use of economics in several important areas. The Working Group then drafted Principles that set forth the Group's recommendations in each of these areas. Each Principle is accompanied by background material that provides its context. It is followed by comments that help to explain and clarify the application of the Principle. Because the use of economics in antitrust turns on evidence produced through experts, these Principles begin with Fed. R. Evid. 702, the rule governing expert testimony in general. In dealing with Rule 702, the Group discusses *Daubert* and its ramifications for antitrust cases. From that starting point, the Principles consider the application of procedural rules to the use of economic evidence, particularly Federal Rules of Civil Procedure 12, 16, and 26 and the use of economics for class certification motions under Rule 23. Turning to substantive issues in antitrust cases, the Principles then address use of economics to prove concerted action, injury to competition, and market definition.

B. THE HISTORICAL DEVELOPMENT OF ANTITRUST AND ECONOMICS

Antitrust is now well into its second century. It began in 1890 when Congress, reacting to a widespread public apprehension and unease over the growing power of large-scale business consolidations, enacted the Sherman Act. After initially applying the law literally, the Supreme Court read a "rule of reason" into the Sherman Act in 1911. Congress then responded with the Clayton Act in 1914, which targeted specific restraints (price discrimination, tying, interlocking directorates, corporate acquisitions), but only when those restraints were likely to lessen competition or generate a tendency to monopoly. In that same year, Congress also enacted the Federal Trade Commission Act, creating a new independent agency and conferring upon it power to prohibit "unfair methods of competition."

Although the language of the antitrust laws refers to economic concepts (restraint, monopolization, lessening of competition, tendency to monopoly), economic analysis took some time to enter fully into antitrust discourse. First, the literal approach that the Court took to the language of the Sherman Act initially impeded its entry. Then the courts had to deal with the troublesome contentions that the rule of reason applied substantively, so as to justify price-fixing agreements that set "reasonable" prices. Eventually, it became clear that the antitrust laws were concerned with protecting the competitive process. Even so, the meaning of competition in popular discourse has been sufficiently imprecise as to allow a wide variety of noneconomic strains to affect the development of the law.

Non-economic concerns

Indeed, although the law has been recognized as concerned with "competition" and its preservation, the elasticity of the meaning of competition has allowed a variety of somewhat overlapping noneconomic goals to vie for inclusion in the law's concerns. These noneconomic concerns tend (albeit not exclusively) to be varieties of populist ones. Among these noneconomic concerns have been: (1) concerns with bigness as such, see *United States v. Columbia Steel Co.*, 334 U.S. 495, 535 (1948) (Douglas, J., dissenting); (2) concerns that competitors be treated fairly, Carl Kaysen & Donald F. Turner, *Antitrust Policy: An Economic and Legal Analysis* 16 (1959); Mary L. Aczuenaga, *Network Externalities and Other Internet Antitrust Issues*, PLI, N.Y., June 14-15, 1999, at

1178; (3) concerns with the protection of small businesses¹; (4) concerns with the dispersion of economic and social power, Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 Antitrust L.J. 913, 914 n.2 (2001); Robert Pitofsky, *The Political Content of Antitrust*, 127 Penn. L. Rev. 1051, 1054, 1061-65 (1979); (5) Jeffersonian concerns with local control over business firms, *United States v. Aluminum Co. of America*, 148 F.2d 416, 429 (2d Cir. 1945); (6) the promotion of equal opportunity² and (7) the maintenance of inter-firm rivalry. Harry S. Gerla, *Restoring Rivalry as a Central Concept in Antitrust Law*, 75 Neb. L. Rev. 209, 211-23 (1996). Sometimes antitrust rhetoric has suggested that one or more of these noneconomic concerns should trump concerns with efficiency. Sometimes these concerns have skewed the way that the law has attempted to foster competition. Sometimes court decisions have been construed by observers as furthering one or more of these noneconomic concerns.

At mid-century most antitrust observers assumed that non-economic considerations would play a role in the application of antitrust law, although later this assumption would be critically assessed. Writing in 1959, Kaysen and Turner, for example, identified several goals of antitrust policy, besides economic performance. Kaysen & Turner, *id.* at 11. Thomas Kauper, writing in 1968, suggested that the inclusion of noneconomic values in antitrust decision-making while preserving consistency in the law's application would test the Court's skill. Thomas E. Kauper, *The "Warren Court" and the Antitrust Laws: Of Economics, Populism, and Cynicism*, 67 Mich. L. Rev. 325, 331 (1968). By 1978, Robert Bork made his case for the furtherance of economic efficiency as the sole goal of antitrust law, in substantial part on the ground that such a goal was essential to consistent and effective administration of the law. Robert H. Bork, *The Antitrust Paradox: A Policy at War with Itself* 79-89 (1978). A prolonged debate in the literature then followed. Although many observers have assumed that the Bork (or Chicago-school) position that has advocated efficiency as the sole antitrust goal has prevailed, in fact it appears, at least in Section 7 merger cases, that some courts have also adopted a maximizing of consumer surplus standard as a guide to the administration of the law.

Economic concerns

Even within its core concern with economic competition, courts and observers have expressed a variety of views as to the precise focus of the antitrust laws. And the direction that economic input has taken has varied over the years. Economic input in the form of argument and evidence appeared to rise to substantial levels during the middle decades of the twentieth century, when the Court began using such concepts as cross-elasticity of demand, *United States v. E.I. Du Pont de Nemours & Co.*, 351 U.S. 377, 400 (1956), and entry barriers, *American Crystal Sugar Co. v. Cuban American Sugar Co.*, 259 F.2d 254, 531 n.10 (2d Cir. 1958). It was during the 1950s that the structure-behavior-performance paradigm was developed and began to influence thinking about antitrust law. Joe S. Bain, *Industrial Organization* (1959); Edward Mason, *The Current State of the Monopoly Problem in the United States*, 62 Harv. L. Rev. 1265, 1282-85 (1949). See also Leonard W. Weiss, *Structure, Conduct and Performance* (1991); Kaysen & Turner, *id.* at 60. Thus, during this period, economists, led by Joe Bain, readily connected large market shares with monopoly-like behavior and welfare losses. Joe S. Bain, *Barriers to New Competition* 217-18 (1956). Many of these economists believed that scale economies were exhausted at relatively low levels of output and therefore could not provide a justification for large market shares that were otherwise undesirable. Indeed, scale economies were sometimes deemed to constitute entry barriers.³ These views began to be incorporated into antitrust law when the courts began to apply the 1950 amendments to the Clayton Act. The first such case reached the Supreme Court in 1962. Thereafter the Court rearticulated in increasingly stringent form the standards barring horizontal mergers that it found in that law.

1. During some periods, the case law has evidenced a concern with the protection of small businesses. Judge Learned Hand manifested this concern in his 1945 *Alcoa* opinion. *United States v. Aluminum Co. of America*, 148 F.2d 416, 429 (2d Cir. 1948). The Supreme Court took that approach in its 1962 *Brown Shoe* decision. *Brown Shoe Co. v. United States*, 370 U.S. 294, 344 (1962). Indeed, in *Brown Shoe*, the Court identified efficiencies resulting from vertical integration as factors counting against the lawfulness of the merger under review, on the ground that those efficiencies would disadvantage rival unintegrated shoe retailers.

2. Stephen F. Ross, Network Effects and the Limits of GTE Sylvania's Efficiency Analysis, 68 Antitrust L.J. 945, 947 (2001). Ross refers to this concern as a "Jacksonian" one, citing President Andrew Jackson's opposition to the Bank of the United States and its rationale.

3. Bain concluded that in many industries a reduction in plant scale would not raise unit costs significantly. Bain, *id.* at 81.

Although the Court employed economic concepts in its decisions throughout the 1960s, it was criticized for employing them inconsistently. Kauper, for example, suggested that the Court was manipulating the relevant-market concept to justify its decisions. Kauper, *id.* at 331. During that same era, the Court took an aggressive stance against vertical restraints. Generally, however, the Court did not attempt to justify its vertical restraints decisions with sophisticated economic reasoning.

In the mid 1970s, the Court reshaped the antitrust laws by incorporating economic reasoning into its formulation of behavioral rules. Generally, the new approach treated behavior as lawful unless it fell under the ban of a rule whose existence was justified by economic reasoning. The Court first hinted at its new approach in 1974, when, in a series of merger cases, *United States v. General Dynamics Corp.*, 415 U.S. 486 (1974); *United States v. Marine Bancorporation, Inc.*, 418 U.S. 602 (1974); *United States v. Connecticut National Bank*, 418 U.S. 656 (1974), it applied economic reasoning to reject the government's position. (Previously, and throughout the 1960s the Court had decided consistently for the government). That hint was confirmed in 1977 when the Court in *GTE Sylvania* applied the rule of reason to vertical restraints, justifying its decision on the basis of economic literature.

For the last quarter century, the Court has continued on the path marked out by *Sylvania*: it has repeatedly declared that *per se* rules ought to be applied only to conduct that “would always or almost always tend to restrict competition and decrease output.” *Business Electronics Corp. v. Sharp Electronics Corp.*, 485 U.S. 717, 723 (1988); *Northwest Wholesale Stationers, Inc. v. Pacific Stationery & Printing Co.*, 472 U.S. 284, 289-90 (1985); *National Collegiate Athletic Ass'n v. Board of Regents of Univ. Of Okl.*, 468 U.S. 85, 100 (1984); *Broadcast Music, Inc. v. Columbia Broadcasting System*, 441 U.S. 1, 19-20 (1979). As described further below, it has narrowed (or overturned) all of the *per se* rules in furtherance of this objective. Many observers have described the Court's approach since the mid 1970s as influenced by the so-called Chicago School,⁴ whose focus is exclusively on the furtherance of efficiency. Yet, the Chicago School has not in fact completely prevailed. Robert Lande has been the primary spokesperson for an economic approach that would focus upon wealth transfer from consumers to producers as the primary concern of the antitrust laws. Robert Lande, *Wealth Transfers as the Original and Primary Concern of Antitrust: The Efficiency Interpretation Challenged*, 34 *Hastings L.J.* 65 (1982). As discussed below, Lande's focus seems to have prevailed in the merger arena.

During the last two decades, a so-called “post-Chicago” approach to antitrust law has been heralded periodically in the literature. Thomas G. Krattenmaker & Steven C. Salop, *Anticompetitive Exclusion: Raising Rivals' Costs to Achieve Power Over Price*, 96 *Yale L.J.* 209 (1986); Herbert Hovenkamp, *Antitrust Policy After Chicago*, 84 *Mich. L. Rev.* 213 (1985). Much of this post-Chicago approach seems to depart from the standard Chicago approach by its concentration upon the particular circumstances of individual competitive situations (as opposed to Chicago's preoccupation with rules), exploring the strategic possibilities through game theory. The Court's decision in *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451 (1992), was seen by some commentators as the beginning of a post-Chicago era. Michael H. Riordan & Steven C. Salop, *Evaluating Vertical Mergers: A Post-Chicago Approach*, 63 *Antitrust L.J.* 513 (1995). See also Steven C. Salop, *The First Principles Approach to Antitrust, Kodak, and Antitrust at the Millennium*, 68 *Antitrust L.J.* 187 (2002). That prediction, however, does not appear to have come true.

***Per se* rules as limiting economic issues**

Even when the law has focused upon competition in an economic sense, the role allocated to economic learning or economic evidence has been limited by administrative concerns. As already noted, the Sherman Act was initially construed literally. This literal construction narrowed the issues, allocated the narrowed issues to lawyers, and allowed no significant room for economic evidence. At the same time that the Court reversed its literal approach by reading a reasonableness term into the Sherman Act, it also identified a category of restraints that it considered inherently unreasonable.

4. Commentators regularly refer to the dominance of the Chicago school of antitrust analysis. See, e.g., Stephen Calkins, *The October 1992 Supreme Court Term and Antitrust: More Objectivity Than Ever*, 62 *Antitrust L.J.* 327, 394 (1994).

Thus the Court at this time created a category of restraints that would be open to a wide-ranging inquiry and thus presumably to economic evidence, and a second category-later to be called one of *per se* illegality-that would be condemned summarily with no opportunity for the introduction of economic evidence.

Expansion and contraction of *per se* rules

During the first three quarters of the twentieth century, the Court was creating and expanding a set of *per se* rules. At first, the *per se* approach (with its concomitant limitations on economic input) was applied to horizontal price-fixing agreements among competitors. In addition to using the *per se* rule against horizontal price fixing agreements, the *per se* rule was expanded over time as a tool to be used against a number of other restraints. Ultimately, the courts would adopt *per se* rules not only against horizontal price-fixing agreements, but against vertical price-fixing agreements, concerted refusals to deal, tying arrangements, and horizontal market-division agreements. The approach of the courts towards exclusive-supply contracts resembled, at least for a while, a *per se* approach. For a short period of time, the courts also embraced a *per-se* approach to vertical distribution agreements involving the allocation of territories or customers. Beginning in the mid-1970s, however, this process was reversed. Since that time just about all of the *per se* rules have been narrowed. The effect of this narrowing is to make the behavior no longer covered by the *per se* rules presumptively lawful. The plaintiff challenging that behavior must demonstrate (through economic evidence) that it adversely affects competition in the general (inter-brand) market.

Horizontal price-fixing agreements

Initially the Court shaped a *per se* rule against price-fixing agreements by competitors who, in the aggregate, possessed significant market power. That appeared to be the way the *per se* rule was defined in *United States v. Trenton Potteries Co.*, 273 U.S. 392 (1927). Later, in *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150 (1940), Justice Douglas's opinion for the Court dispensed with a showing of market power, on the rationale that the proof of market power imposed an unnecessary burden upon the plaintiff and the courts. Under the *Trenton Potteries* approach, there would be room for economic evidence on market power. But under the *Socony-Vacuum* approach, economic evidence was made irrelevant.

As the Court's approach to antitrust changed in the late twentieth century, the Court permitted economic argument to limit the application of the *per se* rule against what at first appeared to be horizontal price fixing in the *BMI* case. *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1 (1979). In that case, copyright licensing carried out by a common agent for thousands of rival copyright holders on musical compositions generated substantial cost savings, and brought to the market a new product, the blanket music license. These savings and the Court's lack of familiarity with the competitive effects of the blanket license persuaded the Court that the arrangement should be assessed under the rule of reason.

Vertical price-fixing agreements

Beginning in 1911, the *per se* approach was used to condemn vertical price-fixing agreements. Indeed, in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911), the first case in which the Court condemned vertical price fixing, the Court at first expressed puzzlement over why a manufacturer would want to control the resale price of its products. It cut short inquiry into that matter, however, by summarily equating vertical price-fixing with horizontal price-fixing. On that rationale, it generated a *per se* approach towards vertical price-fixing agreements, and effectively excluded economic evidence relating to vertical price-fixing, its motivations, and effects.

The economic analysis of vertical price-fixing agreements set forth by Lester Telser in 1960, *Why Should Manufacturers Want Fair Trade?* 3 J.L. & Econ. 86 (1960), argued that the Court's failure to pursue its inquiry into the reason manufacturers wanted to control resale prices was a mistake. Telser concluded that resale price maintenance is generally benign. Other scholars, including Scherer and Comanor, have disputed Telser's position. F.M. Scherer, *The Economics of Vertical Restraints*, 53

Antitrust L.J. 687 (1983); William S. Comanor, *Vertical Price Fixing, Vertical Market Restrictions, and the New Antitrust Policy*, 98 Harvard L. Rev. 983 (1985). Not surprisingly, the Court has been attuned to academic debate over its treatment of vertical price-fixing agreements. In its 1988 decision in *Business Electronics Corp. v. Sharp Electronics Corp.*, 485 U.S. 717 (1988), Justice Scalia (speaking for the Court) provided a rationale for treating those agreements as *per se* illegal: vertical price-fixing agreements facilitate horizontal cartels at the supplier level by making it more difficult for cheaters to dispose of their excess supplies. The limited rationale for the *per se* rule against vertical price-fixing contracts set forth in *Business Electronics* suggests that there may be room for economic arguments that would some day limit the *per se* rule against vertical price-fixing contracts to contexts in which there is a horizontal cartel or an oligopoly.

In *State Oil Co. v. Khan*, 522 U.S. 3 (1987), the Court further limited the *per se* rule in vertical price-fixing cases, by holding that maximum resale price maintenance would henceforth be treated under the rule of reason, leaving only minimum resale price maintenance *per se* illegal.

Concerted refusals to deal

In *Fashion Originators' Guild of America, Inc. v. FTC*, 312 U.S. 457 (1941), the Court began the fashioning of a *per se* rule against concerted refusals to deal. The Court's opinion in that case made reference to the market shares represented by the defendants and thus carried a suggestion that the *per se* rule would be applied only to defendants that in the aggregate possessed substantial market shares. But in *Klor's, Inc. v. Broadway-Hale Stores, Inc.*, 359 U.S. 207 (1959), the Court indicated that neither market share nor market power was an issue in a concerted refusal to deal case. After the *Klor's* decision, the scope of the *per se* rule against concerted refusals to deal appeared to be both broad and open-ended. The Court cut back on the scope of that rule in *Northwest Wholesale Stationers* in 1985. *Northwest Wholesale Stationers, Inc. v. Pacific Stationery & Printing Co.*, 472 U.S. 284 (1985). It subsequently confirmed its new approach in its *NYNEX* decision. *NYNEX Corp. v. Discos, Inc.*, 525 U.S. 128 (1998).

Tying

A *per se* rule applicable to tying arrangements emerged from the Court's patent misuse decisions. No economic evidence or economic argumentation was allowed in early twentieth-century misuse cases such as *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), and *Carbice Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931), where judgment was rendered as a legal determination about the extent of patent protection. By the mid 1940s, non-patent related tying was being treated as *per se* unlawful. *International Salt Co., v. United States*, 332 U.S. 392 (1947); *Mercoid Corp. v. Mid-continent Inv. Co.*, 320 U.S. 661 (1944); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944). Tying ultimately was treated as unlawful under the Clayton Act whenever it involved any substantial amount of commerce, and as *per se* unlawful under the Sherman Act whenever the defendant was deemed to possess significant power in the tying product market and a substantial amount of commerce in the tied-product market was affected. *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594 (1953). By the 1960s these two conditions tended to merge; whenever a substantial amount of commerce in the tied-product market was affected, the courts concluded that the defendant possessed market power in the tying product. *Fortner Enterprises, Inc. v. United States*, 394 U.S. 495 (1969); *Northern Pacific Ry. v. United States*, 356 U.S. 1 (1958). As a result, the *per se* rule under the Sherman Act collapsed into the governing rule under the Clayton Act. Whereas economic evidence was at least potentially relevant in determining the defendant's power over the tying-product market, the increasing stringency of the *per se* rule during this period limited the role of economic evidence.

The *per se* rule governing tying arrangements was narrowed in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984), where the Court ruled that a tie of anesthesiological services to hospital services by a hospital with less than a 30% market share could not be subjected to a *per se* rule. In that decision, four members of the Court argued in a concurring opinion that the *per se* rule against tying should be abolished. More recently, the D.C. Circuit ruled that the *per se* rule against tying arrangements should not apply to tying involving platform software. *United States*

v. Microsoft Corp., 253 F.3d 34 (D.C. Cir. 2001). The court's position was based upon the rationale that otherwise innovation would likely be inhibited, because innovation in platform software has often taken the form of incorporating functionalities into the platform that previously were separately marketed. This decision not only limits the *per se* rule, but may provide new impetus to the arguments put forth in the *Jefferson Parish* concurring opinion that the *per se* rule against tying should be abandoned.

An interesting question involving tying—perhaps largely of theoretical importance—is whether a monopoly seller would be “monopolizing” if it employed tying practices to imitate the behavior of a perfectly discriminating monopolist by selling to each customer at its reservation price. The old *IBM* case, *International Bus. Mach. Corp. v. United States*, 298 U.S. 131 (1936), involved the use of a tie (punched cards tied to computing machines) to come as close as possible to charging each category of user its reservation price. That issue appears to turn upon whether the antitrust laws are primarily concerned with efficiency or with protecting consumers against wealth transfers to producers.

Horizontal territorial allocation agreements

Agreements between competitors allocating territories have long been treated as *per se* illegal. Indeed, the courts have probably treated horizontal market division agreements as effectively *per se* illegal since the *Addyston Pipe* decision in 1899, *United States v. Addyston Pipe & Steel Co.*, 85 Fed. 271 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899), a decision predating by twelve years the Supreme Court's adoption of the rule of reason. Horizontal market division agreements were treated as *per se* illegal by the Court in *Timken Co. v. United States*, 341 U.S. 593 (1951), and more recently in *Palmer v. BRG of Georgia, Inc.*, 498 U.S. 46 (1990). Probably the most expansive use of the *per se* rule to condemn territorial allocation agreements occurred in *United States v. Sealy, Inc.*, 388 U.S. 350 (1967), and *United States v. Topco Associates, Inc.*, 405 U.S. 596 (1972). Substantial economic arguments were available in those cases to show that the agreements in fact enhanced competition, by enabling small or medium-size companies to compete better with larger rivals. By treating the arrangements as *per se* illegal, however, the Court made these potential economic justifications irrelevant.

In 1986, Judge Robert Bork reasoned in *Rothery Storage & Van Co. v. Atlas Van Lines, Inc.*, 792 F.2d 210 (D.C. Cir. 1986), that because of subsequent Supreme Court decisions, the *per se* rule against territorial allocation agreements among competitors set forth in *Sealy* and *Topco* no longer applied to agreements ancillary to a joint venture (such as the contractually integrated moving enterprise that was involved in the case before him or the integrations involved in *Sealy* or *Topco*).

Exclusive supply contracts

In 1949, the Court decided that exclusive supply contracts should be treated as unlawful under section 3 of the Clayton when they foreclosed a “substantial share” of the affected line of commerce. This formulation preserved a role for economic evidence in the determination of relevant market. Both economic evidence and argument would be potentially useful on other issues, such as when the length of the agreements made them unreasonable. By 1974, the courts appeared open to economic arguments that long-term supply arrangements were sometimes necessary to facilitate investment and financing. *United States v. General Dynamics Corp.*, 415 U.S. 486, 500-01 (1974). Exclusive supply contracts are now governed by the rule of reason. *Roland Machinery Co v. Dresser Industries, Inc.*, 749 F.2d 380, 393 (7th Cir. 1984). See also *Omega Environmental, Inc. v. Gilbarco, Inc.*, 127 F.3d 1157, 1163 (9th Cir. 1997). As a result, there is a wide opening for economic evidence in this class of cases as well.

Vertical distribution agreements

For a short period of time, vertical agreements restricting the territories in which distributors sold or the identities of their customers were treated as *per se* illegal. *United States v. Arnold Schwinn & Co.*, 388 U.S. 365 (1967). Economic arguments were the basis for the decision in *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977), overruling *Schwinn*, and overturning

the *per se* rule that had been applied to vertical agreements restricting distributors' sales territories and customers, which now fall under the rule of reason.

Economic issues in merger evaluation

During the 1960s, the Court repeatedly decided the merger cases before it in favor of the government, and was criticized for its inconsistent use of relevant market concepts during that period. Indeed, in its *Pabst* decision, *United States v. Pabst Brewing Co.*, 384 U.S. 546, 549 (1966), the Court (through Justice Black) even suggested that the relevant market concept was dispensable. In the merger arena, economic issues have become increasingly important since the Court's trio of decisions in 1974 in *United States v. General Dynamics Corp.*, 415 U.S. 486 (1974), *United States v. Marine Bancorporation, Inc.*, 418 U.S. 602 (1974), and *United States v. Connecticut National Bank*, 418 U.S. 656 (1974). The Court confirmed the importance of identifying and proving a relevant market in *Connecticut National Bank*. In *General Dynamics*, the Court declined to allow inferences of market power to be drawn based on evidence of low market shares. And it allowed economic argument to redefine the applicability of its potential-competition doctrine in *Marine Bancorporation*. Beginning in 1982, merger guidelines promulgated by the Justice Department, U.S. Dep't of Justice, 1982 *Merger Guidelines*, 4 Trade Reg. Rep. (CCH) Paragraph 13,102; U.S. Dep't of Justice, 1984 *Merger Guidelines*, 4 Trade Reg. Rep. (CCH) Paragraph 13,103, and then later jointly by the Justice Department and the Federal Trade Commission, U.S. Dep't of Justice & FTC, 1992 *Merger Guidelines*, 4 Trade Reg. Rep. (CCH) Paragraph 13,104 (as amended 1997), have established criteria for the types of evidence to be used in the evaluation of mergers. These guidelines make a range of economic evidence relevant. Such evidence includes evidence about market, cross-elasticity of demand, concentration, and potential entry.

Among the critical economic issues affecting mergers is the applicability of an efficiencies defense, including the applicability of the so-called Williamson tradeoff.⁵ The courts have verbally endorsed an efficiencies defense, but the courts of appeal have not yet clearly applied such a defense. Many courts (both district courts and courts of appeals) have insisted upon some "passing on" of the benefits of efficiencies to consumers as a condition of recognizing an efficiencies defense. *FTC v. Cardinal Health, Inc.*, 12 F.Supp.2d 34, 62 (D.D.C. 1998); *FTC v. University Health, Inc.*, 938 F.2d 1206, 1223 (11th Cir. 1991); *FTC v. Butterworth Health Corp.*, 946 F.Supp.1285 (W.D. Mich. 1996), *aff'd*, 121 F.3d 708 (6th Cir 1997); *FTC v. Swedish Match*, 131 F.Supp.2d 151, 172 (D.D.C. 2000); *United States v. United Tote, Inc.*, 768 F. Supp. 1064, 1084-85 (D. Del. 1991); *California v. American Stores*, 697 F. Supp. 1125, 1133-34 (C.D. Cal. 1988), *aff'd in part and rev'd in part*, 872 F.2d 837 (9th Cir. 1989), *rev'd*, 495 U.S. 271 (1990). This "passing on" language seems to be an endorsement of a consumer-surplus maximization standard of evaluation and thus a rejection of the Williamson tradeoff (which is a total surplus maximization standard). Indeed, it might be beneficial were the courts to drop the passing-on language and instead forthrightly adopt a consumer-surplus maximization standard, as the latter term is less prone to misunderstanding. See Paul L. Yde & Michael G. Vita, *Merger Efficiencies: Reconsidering the "Passing On" Requirement*, 64 *Antitrust L.J.* 735, 742 (1996).

In at least one hospital merger case, a court was persuaded by purportedly economic evidence that there was a correlation between increased concentration and lower prices to consumers. *FTC v. Butterworth Health Corp.*, 946 F. Supp. 1285 (W.D. Mich. 1996), *aff'd*, 121 F.3d 708 (6th Cir. 1997). If the courts' embrace of a passing-on requirement is in fact an adoption of a consumer-surplus standard, then the Robert Lande position that the prevention of wealth transfers from consumers to producers constitutes the primary purpose of Section 7 appears to be correct. Both the courts and the merger guidelines appear to embrace an approach to an efficiencies defense that requires evidence of greater efficiencies to offset greater anticompetitive effects likely to result from a proposed merger. The strongest such case may have been the recent proposed Heinz/Beech-Nut merger where evidence of substantial efficiencies was deemed inadequate because of the high-levels of concentration.⁶

5. Oliver Williamson, *Economics as an Antitrust Defense: The Welfare Tradeoffs*, 58 *Am. Econ. Rev.* 18 (1968). Although the Chicago school is associated with an exclusive focus upon efficiency, two of the most prominent Chicago-school scholars have argued against the allowance of an efficiencies defense in merger cases. Robert Bork, *The Antitrust Paradox* 124-29 (1978); Richard Posner, *Antitrust Law* 112 (1976).

6. *FTC v. H.J. Heinz Co.*, 246 F.3d 708 (D.C. Cir. 2001). The *Heinz* decision is reviewed, *inter alia*, in Jonathan B. Baker, *Efficiencies and High Concentration: The Heinz Proposes to Acquire Beech-Nut*, in *The Antitrust Revolution: Economics, Competition and Policy* (4th ed., 2004, John E. Kwoka, Jr. & Lawrence J. White, eds.).

Summary

In summary, the history of the antitrust laws shows a continuing struggle over the scope for economic evidence and economic argumentation. Throughout the earlier history of those laws, economics had to vie with other, largely populist concerns for recognition in decision making. *Per se* rules limit the role for economic input (both evidence and argument). Today, *per se* rules have narrowed. The result is that most behavior is presumed to be lawful. Economic argument can be useful in working out the boundaries of *per se* rules. It would be potentially available for arguments (on both sides) on whether to retain *per se* rules whose value has been questioned (such as those involving tying and those involving vertical price-fixing agreements).

The chapters hereafter will review both the proper procedural constraints to be applied to the use of economic evidence in antitrust cases, as well as those areas of substantive law where the Working Group believes economic evidence can make a valuable contribution.

CHAPTER I.
BEST PRACTICES IN APPLYING FEDERAL RULE OF EVIDENCE 702
TO EXPERT ECONOMIC TESTIMONY IN ANTITRUST CASES

INTRODUCTION

The admissibility of economic testimony, like all other expert testimony, is governed by Federal Rule of Evidence 702. As amended in 2000 in the wake of the landmark decision in *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993), Rule 702 provides:

If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise, if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case.

Rule 702 has been said to impose “a trilogy of restrictions on expert testimony: qualification, reliability and fit.” *Schneider v. Fried*, 320 F.3d 396, 404 (3d Cir. 2003). See also *Club Car, Inc. v. Club Car (Quebec) Import, Inc.*, 362 F.3d 775, 780 (11th Cir. 2004) (“Expert testimony is admissible if (1) the expert is qualified to testify on the topic at issue, (2) the methodology used by the expert is sufficiently reliable, and (3) the testimony will assist the trier of fact.”). As elaborated below, economic testimony is inadmissible in an antitrust case unless:

- (1) the witness is an expert in the relevant aspects of economics,
- (2) the testimony is well grounded in relevant aspects of economics, and
- (3) the testimony applies the tools of economics to the facts of the case.

Qualifications

PRINCIPLE I-1 **The qualifications of an economic expert must be evaluated in the light of the specialized nature of the analysis that may be performed in antitrust cases.**

COMMENT

Rule 702 requires “specialized expertise,” *Schneider*, 320 F.3d at 404, and the “*Daubert* test must be applied with due regard for the specialization of modern science.” *Dura Automotive Systems of Indiana, Inc., v. CTC Corp.*, 285 F.3d 609, 614 (7th Cir. 2002) (Posner, C.J.). Economics is highly specialized, as are many of the particular applications of economics in antitrust cases. A witness with a Ph.D. in economics, and even a Nobel Prize, nevertheless may be unqualified to testify about a particular issue or to apply a particular method. Indeed, antitrust law raises issues, such as the definition of the relevant market, not commonly or widely addressed by many fields of study in economics, and only expertise on market definition can qualify a witness to testify on the relevant market. Cf. *Nelson v. Monroe Regional Medical Center*, 925 F.2d 1555, 1572 (7th Cir. 1991) (concurring opinion) (A respected Ph.D. economist with “no background in antitrust markets” and not “a member of any associations or industrial organization groups which form the bulwark of economists specializing in antitrust law and economics” was not qualified to testify on the relevant market.). Moreover, a witness lacking a Ph.D. in economics but experienced in particular methods used in antitrust may be well qualified to testify using such methods.

PRINCIPLE I-2 **The qualifications of an economic expert should be evaluated on the basis of training and experience with the particular issues addressed and methods employed, as well as familiarity with relevant scholarly literature.**

COMMENT

Neither advanced training in economics nor extensive testimonial experience necessarily qualifies a witness as an expert on any particular issue or analytic method. Rather, a witness must have training and experience on the issues addressed and methods applied. See *Berry v. City of Detroit*, 25 F.3d 1342, 1351 (6th Cir. 1994) (A court should examine “not the qualifications of a witness in the abstract, but whether those qualifications provide a foundation for a witness to answer a specific question.”).

The required training and experience depend on the degree of specialization of the issues addressed and methods applied. For example, expert economic testimony in antitrust cases may entail the use of multiple regression or other econometric techniques. See generally Daniel L. Rubinfeld, *Reference Guide on Multiple Regression*, in REFERENCE MANUAL ON SCIENTIFIC EVIDENCE 181 (Federal Judicial Center, 2d ed. 2000). General training in economics at the Ph.D. level normally qualifies a witness as an expert on basic applications of basic econometric methods. On more subtle and complex issues, only a witness specializing in econometrics may be qualified. On those rare occasions when economic evidence in a case involves fine points of certain highly specialized techniques, only econometricians with even more specialized knowledge of those particular techniques may be qualified. See *Dura Automotive Sys. v. CTC*, 285 F.3d at 613-14. Of course, a well-trained econometrician is qualified to apply or assess methods never before encountered when they are modest extensions of familiar principles. Nor is this Principle intended to prevent economists from employing their expertise to apply or assess methods not previously encountered where their expertise qualifies them to make use of such methods.

A witness with little or no formal training in economics almost certainly is not qualified to offer testimony with a purported basis in economics. See *Berlyn, Inc. v. Gazette Newspapers, Inc.*, 214 F. Supp. 2d 530, 537 (D. Md. 2002) (excluding testimony on the relevant market by a witness lacking “specific education, training, or experience in economics or antitrust analysis”); *Virginia Vermiculite Ltd. v. W.R. Grace & Co.-Connecticut*, 98 F. Supp. 2d 729, 733 (W.D. Va. 2000) (excluding testimony on the relevant market by a witness lacking the “skill and training of a professional economist necessary to define a relevant market for antitrust purposes”). Similarly, a witness with formal training in economics but totally out of touch with developments in economics over several decades is unqualified to testify about many issues to which such developments are pertinent.

A witness who has published widely on a particular issue or analysis is almost certainly qualified to testify on that issue. The only exception might be a witness with views so far outside the mainstream as to be considered wholly irrational and unsupported. And a witness who has confronted an issue or applied a method many times in professional work most likely has acquired the requisite expertise.

Reliability

PRINCIPLE I-3 **To be admissible, testimony from a witness qualified as an expert in aspects of economics must be based on the tools of economics.**

COMMENT

As stated by the Advisory Committee Notes to the 2000 amendments of Rule 702, an “expert’s testimony must be grounded in an accepted body of learning or experience in the expert’s field, and the expert must explain how the conclusion is so grounded.” Thus, the testimony of a witness qualified as an expert in economics is admissible only to the extent that the opinions expressed derive from the application of the tools of economics, i.e., only to the extent that they are

supported by economic reasoning or predicated on formal economic models or empirical methods used in economics. Cf. *Worldwide Basketball and Sports Tours, Inc. v. NCAA*, 273 F. Supp. 2d 933, 944 (S.D. Ohio 2003) (excluding purely “conclusory” testimony on submarket).

As the Supreme Court held in *General Electric Co. v. Joiner*, 522 U.S. 136, 146 (1997), “nothing requires a district court to admit opinion evidence that is connected to existing data only by the *ipse dixit* of the expert. A court may conclude that there is simply too great an analytical gap between the data and the opinion proffered.” See also *R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc.*, 2004-2 Trade Cas. (CCH) Paragraph 74,491, at 99,779 (N.D. Ill. 2004) (“If the applicable data and the proffered opinion are separated by an analytical chasm, it cannot be bridged solely by the expert’s say-so . . .”). Nor can the gap between the data and the opinion be bridged through the mere utterance of economic jargon, such as vague references to econometric methods like “multiple regression” or theoretical constructs like “oligopoly theory.” A witness purporting to rely on econometric methods or economic models must describe the methods or models in sufficient detail to communicate the particular methods or models on which the witness purports to rely. A witness also must provide the economic reasoning that explains why the methods or models are relevant and how they support the conclusion reached.

Economic experts may be called upon to draw inferences from statements by market participants or to interpret documents, and the lens of economics certainly may bring such evidence into sharper focus. But testimony from a witness qualified as an expert in aspects of economics must be excluded if the principles of economics are not being applied. For example, the application of the tools of economics can never support a conclusion that documentary evidence itself demonstrates that a conspiracy existed, or that it did not. Cf. *City of Tuscaloosa v. Harcros Chemicals, Inc.*, 158 F.3d 548, 565 (11th Cir. 1998) (affirming exclusion of statistician’s “characterizations of documentary evidence as reflective of collusion”). In contrast, the tools of economics, properly applied, can support testimony that certain conduct was, or was not, consistent with the pursuit of unilateral self-interest.

Of course, an economist may have relevant expertise not strictly within the field of economics and may be qualified as an expert not just in aspects of economics. For example, an economist may be an expert in aspects of statistics or in specialized methods developed for antitrust such as the hypothetical monopolist test of the *Horizontal Merger Guidelines* promulgated by the U.S. Department and Federal Trade Commission. See generally Gregory J. Werden, *The 1982 Merger Guidelines and the Ascent of the Hypothetical Monopolist Paradigm*, 71 ANTITRUST L.J. 253 (2003).

PRINCIPLE I-4 For testimony to be admissible, an expert economist must articulate “good grounds” in economics for the expert’s opinions.

COMMENT

The proponent of expert testimony has the burden of establishing its admissibility. *Oddi v. Ford Motor Co.*, 234 F.3d 136, 144 (3d Cir. 2000); *Lust v. Merrell Dow Pharmaceuticals, Inc.*, 89 F.3d 594, 598 (9th Cir. 1996). And an “expert’s opinion must be based on the ‘methods and procedures of science’ rather than on ‘subjective belief or unsupported speculation’; the expert must have ‘good grounds’ for his or her belief.” *In re Paoli R.R. Yard PCB Litigation*, 35 F.3d 717, 742 (3d Cir. 1994) (quoting *Daubert*, 509 U.S. at 590). The testimony of a witness qualified as an expert in aspects of economics, therefore, is inadmissible unless it sets out grounds in economics for the opinions offered that are sufficient to make out a prima facie case for admissibility of the testimony. To make out a prima facie case for admissibility, expert economic testimony must identify the specific economic reasoning, and models or methods of economics (if any) supporting each opinion expressed, the rationale for applying those models and methods, and the economic logic that connects them to the opinion.

Precisely what is required of a witness “depends upon the particular circumstances of the particular case.” *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 150 (1999). “In deciding whether a step in an expert’s analysis is unreliable, the district court should undertake a rigorous examination of the facts on which the expert relies, the method by which the expert draws an opinion from those

facts, and how the expert applies the facts and methods to the case at hand.” *Amorgianos v. National R.R. Passenger Corp.*, 303 F.3d 256, 267 (2d Cir. 2002).

Judge Posner has held that, under Rule 702, an expert “is not permitted to offer evidence that he has not generated by the methods he would use in his normal academic or professional work, which is to say in work undertaken without reference to or expectation of possible use in litigation.” *Khan v. State Oil Co.*, 93 F.3d 1358, 1365 (7th Cir. 1996) (Posner, C.J.), *vacated*, 522 U.S. 3 (1997). While this articulation of Rule 702 could preclude any economic testimony based on methods especially developed for use in antitrust, Justice Breyer has explained that all Rule 702 requires is that an expert “employ[] in the courtroom the same level of intellectual rigor that characterizes the practice of an expert in the relevant field.” *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 152 (1999). *See also Lantec, Inc. v. Novell, Inc.*, 306 F.3d 1003, 1025 (10th Cir. 2002) (affirming exclusion of testimony not employing “the same level of intellectual rigor that characterizes an expert in the field of economics and industrial organization”).

“Vigorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence.” *Daubert*, 509 U.S. at 596. “A minor flaw in an expert’s reasoning or a slight modification of an otherwise reliable method will not render an expert’s opinion *per se* inadmissible. ‘The judge should only exclude the evidence if the flaw is large enough that the expert lacks “good grounds” for his or her conclusions.’” *Amorgianos*, 303 F.3d at 267 (quoting *In re Paoli*, 35 F.3d at 746). But expert economic testimony lacks good grounds to the extent it relies on reasoning, models or methods, or ways of applying them, deemed clearly erroneous by professional consensus. *See State Oil*, 93 F.3d at 1365 (Posner, C.J.) (The testimony of a witness who “failed to conduct a study that satisfied professional norms,” is inadmissible even if the witness is “a Ph.D. in economics from a reputable university and an experienced consultant in antitrust economics, and hence qualified to offer expert economic evidence.”), *vacated*, 522 U.S. 3 (1997).

Economics may offer several alternative lines of reasoning, models, or methods that may be useful in analyzing a particular issue in an antitrust case, so two differing analyses leading to conflicting conclusions both may have good grounds in economics. *Cf. ID Security Systems Canada, Inc. v. Checkpoint Systems, Inc.*, 198 F. Supp. 2d 598, 603-09 (E.D. Pa. 2003) (admitting both sides’ expert economic testimony over objections). “*Daubert* neither requires nor empowers trial courts to determine which of several competing scientific theories has the best provenance. It demands only that the proponent of the evidence show that the expert’s conclusion has been arrived at in a scientifically sound and methodologically reliable fashion.” *United States v. Mitchell*, 365 F.3d 215, 244 (3d Cir. 2004).

PRINCIPLE I-5 **Expert economic testimony is not rendered unreliable because it runs contrary to case law precedent, nor is it rendered reliable because it is based on precedent.**

COMMENT

Antitrust law has embraced economic learning to a significant extent, but there may remain significant tensions between the two. Expert economic testimony departing from legal precedent is properly excluded when it does not “assist the trier of fact to understand the evidence or to determine a fact in issue,” *Williamson Oil Co., Inc. v. Philip Morris USA*, 346 F.3d 1287, 1322-23 (11th Cir. 2003); but departing from legal precedent is not a basis for questioning the reliability of economic testimony. A few courts may have held to the contrary. *See City of Tuscaloosa*, 158 F.3d at 567 n.27 (noting that an economist’s testimony should have been excluded for a variety of reasons, including that his market definition was “contrary to law”); *Bailey v. Allgas, Inc.*, 148 F. Supp. 2d 1222, 1242-45 (N.D. Ala. 2000) (excluding relevant market testimony in part because it “runs contrary to well-established law”).

In addition, the fact that expert economic testimony is firmly grounded in legal precedent is not a basis for finding that it is reliable. There must be good grounds in economics for the

testimony no matter how consistent it is with precedent. For example, the testimony of an economic expert on market delineation is inadmissible if the only grounds for the opinion are the “practical indicia” set out in *Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962). The “practical indicia” are not economics at all, much less intellectually rigorous economics. Of course, testimony by an economic expert may be admissible if it merely addresses the presence or absence of Brown Shoe indicia or issues implicated by the indicia.

PRINCIPLE I-6 To be admissible, expert economic testimony must be based on sufficient facts or data.

COMMENT

Rule 702 requires that expert testimony be “based upon sufficient facts or data,” and expert economic testimony normally must be well grounded in the facts of the industry and the case. *Accord El Aguila Food Products, Inc. v. Gruma Corp.*, 301 F. Supp. 2d 612, 620-24 (S.D. Tex. 2003) (excluding testimony “based on wholly insufficient data” while ignoring “the facts of the case”). A court should be highly suspect of an expert knowing little, and caring little, about the facts. In a notorious case, the district court excluded most of the testimony of a Nobel Prize winning economist because he had inadequate knowledge of the industry. *In re Brand Name Prescription Drugs Antitrust Litig.*, 1999-1 Trade Cas. (CCH) Paragraph 72,446, at 84,126-28 (N.D. Ill. 1999).

The extent of the grounding in fact required for expert economic testimony, however, necessarily depends on the subject matter of the testimony. In the notorious case just mentioned, the court of appeals held that “the district judge erred in excluding [the] testimony on the grounds that he did,” because the point of the testimony was something “[e]veryone knows” without studying the industry. Hence, extensive factual knowledge was unnecessary. *In re Brand Name Prescription Drugs Antitrust Litig.*, 186 F.3d 781, 786 (7th Cir. 1999) (Posner, C.J.) (emphasis added). Even purely theoretical economic testimony may thus be admissible in some cases, for example to rebut testimony on a proposition of economic theory from another expert.

Opposing economic experts may legitimately perceive facts differently or take different views of which facts are critical. As noted by the Advisory Committee Notes to the 2000 amendments of Rule 702: “When facts are in dispute, experts sometimes reach different conclusions based on competing versions of the facts. The emphasis in the amendment on ‘sufficient facts or data’ is not intended to authorize a trial court to exclude an expert’s testimony on the ground that the court believes one version of the facts and not the other.”

While the word “data” in Rule 702 encompasses more than that term’s meaning in statistics or economics, it certainly encompasses that narrower meaning as well. Any data, in the statistical sense, on which a testifying expert relies must be shown to be reasonably suited to the task. *See SMS Systems Maintenance Services, Inc. v. Digital Equipment Corp.*, 188 F.3d 11, 25 (1st Cir. 1999) (“an expert must vouchsafe the reliability of the data on which he relies and explain how the cumulation of that data was consistent with standards of the expert’s profession”); *U.S. Information Systems, Inc. v. International Brotherhood of Electrical Workers Local Union No. 3*, 313 F. Supp. 2d 213, 233-35 (S.D.N.Y. 2004) (“As the proponents of the expert, it is the plaintiffs’ burden to demonstrate the reliability of his data. Here, the plaintiffs have not met that burden, and [the expert’s] data sample therefore cannot provide the basis for his testimony.”). Although the economic expert’s testimony must be based on sufficient, reliable facts, the expert’s role is not necessarily to establish the reliability of the evidence and facts relied upon, the reliability of which may be established elsewhere in the evidentiary record.

Fit**PRINCIPLE I-7 To be admissible, expert economic testimony must fit the facts of the case.**

COMMENT

In *Daubert*, the Supreme Court held that expert testimony is admissible only if it “is sufficiently tied to the facts of the case that it will aid the jury in resolving a factual dispute,” i.e., only if there is a good “fit” between the testimony and the pertinent inquiry. 509 U.S. at 591 (quoting *United States v. Downing*, 753 F.2d 1224, 1242 (3d Cir. 1985)). In the most significant application of this Principle in an antitrust case, the Eighth Circuit noted that “a theory that might meet certain *Daubert* factors . . . should not be admitted if it does not apply to the specific facts of the case,” and the court excluded expert economic testimony on which a jury verdict rested, because the oligopoly model used by the plaintiffs’ expert economist was “not grounded in the economic reality of the” industry. *Concord Boat v. Brunswick Corp.*, 207 F.3d 1039, 1056 (8th Cir. 2000).

In other antitrust cases, courts have similarly excluded expert economic testimony not adequately grounded in the facts. See *Group Health Plan, Inc. v. Philip Morris USA, Inc.*, 344 F.3d 753, 760-61 (8th Cir. 2003) (plaintiffs’ expert testimony, although “thorough, sophisticated, and often well-grounded in the relevant scientific literature,” excluded because of “excessive speculation”); *Heary Bros. Lightning Protection Co., Inc. v. Lightning Protection Institute*, 287 F. Supp. 2d 1038, 1065-68 (D. Ariz. 2003) (economic expert testimony excluded because the expert had “no evidence at all supporting [an important] assumption” and because the expert’s “Cournot model does not fit the economic reality” of the industry); *American Booksellers Ass’n, Inc. v. Barnes & Noble, Inc.*, 135 F. Supp. 2d 1031, 1041 (N.D. Cal. 2001) (expert’s model excluded for purposes of proving damage causation, and summary judgment on damage claims granted, because it contained “too many assumptions and simplifications that are not supported by real-world evidence”). A formal economic model or method, however, does not necessarily need to fit every or even most facts of a case in order to be admissible. The theoretical and empirical modeling tools of economics invariably incorporate assumptions that may not perfectly comport with any particular factual setting, and they may nevertheless appropriately form a basis for an economic opinion. For example, an expert may illustrate an economic principle with a formal model that does not fit all facts in a case, and may explain separately why that principle applies given the particular facts of the case. The applicability of the principle to the facts of the case would then be an issue for the trier of fact that would rarely prevent admissibility. Similarly, a method of data analysis may be admissible even if it incorporates assumptions or simplifications that do not fit all the facts of the case. Under such circumstances, questions involving the robustness of the conclusions under alternative assumptions would be issues for the trier of fact that would rarely prevent admissibility.

PRINCIPLE I-8 The critical test for the fit of a theoretical economic model is not whether it accurately reflects institutional details, but whether it explains the aspects of industry performance it is being used to predict.

COMMENT

A theoretical economic model used to make predictions must fit the facts of the industry to which it is applied. A closer fit to the facts of an industry is required for a theoretical model used to make predictions than for a theoretical model used only to illustrate an economic principle. The same oligopoly model was rejected in both *Concord Boat* and *Heary Bros.* because it was judged to fit both industries poorly. However, a model need not reflect every institutional detail of an industry; indeed, economic models are meant to be abstractions and are useful because they abstract from real-world minutiae. Testimony based on a particular model should not be excluded merely because the stylized actions of economic agents in the model do not comport with the details of actual behavior of agents the industry. The critical test of a model is whether it explains reasonably well those aspects of industry performance that the model is being used to predict. For example, if a model is being used to predict prices for the years following a proposed merger, it should also be able to

explain pricing for the years before the merger. *See generally* Gregory J. Werden, Luke M. Froeb & David T. Scheffman, A Daubert *Discipline for Merger Simulation*, ANTITRUST, Summer 2004, at 89. The model also must be calibrated to match important quantitative aspects of an industry, e.g., market shares and prices.

PRINCIPLE I-9 The critical test for fit for an empirical economic model is whether it is capable of aiding the trier of fact by reliably explaining or accounting for a relevant factual issue.

COMMENT

An empirical model used to make predictions or disentangle effects must be tailored to the facts of the case. A necessary predicate to the application of an empirical model is a demonstration, applying economic reasoning to the facts, of the potential for the available data reliably to explain or account for a relevant factual issue. Models used to make predictions or disentangle effects are properly excluded if they fail to account for important causal factors and therefore fail to isolate the cause of interest. *See Craftsmen Limousine, Inc. v. Ford Motor Co.*, 363 F.3d 761, 776-77 (8th Cir. 2004) (damages testimony held inadmissible because it “did not determine whether other factors, including the emergence of two direct competitors, may have affected” the plaintiffs’ growth rate); *Blue Dane Simmental Corp. v. American Simmental Ass’n*, 178 F.3d 1035, 1039-41 (8th Cir. 1999) (affirming exclusion of damage estimate because it inferred “causation without considering all independent variables that could affect the conclusion”); *In re Aluminum Phosphide Antitrust Litigation*, 893 F. Supp. 1497, 1504-05 (D. Kan. 1995) (rejecting as unreliable a damage estimate that failed to account for several important factors).

Procedures

PRINCIPLE I-10 Case management orders should address motions to exclude expert economic testimony based on Rule 702, responses to such motions, and, if appropriate, hearings on such motions.

COMMENT

Motions to exclude may be permitted at any time after the filing of an expert report. *See Club Car, Inc. v. Club Car (Quebec) Import, Inc.*, 362 F.3d 775, 780 (11th Cir. 2004) (“A Daubert objection not raised before trial may be rejected as untimely. . . . But a trial court has broad discretion in determining how to perform its gatekeeper function, and nothing prohibits it from hearing a *Daubert* motion during trial.”) (citation omitted). It clearly is best, however, that such motions be made well in advance of trial. Thus, case management orders generally should make specific provision for motions to exclude expert testimony based on Rule 702. Such motions should be filed sufficiently in advance of trial to permit responses and rulings on the motions prior to trial. If expert reports are filed at least ninety day before trial, as provided by Fed. R. Civ. P. 26(a)(2)(C), motions to exclude should be required within thirty days after the filing of the corresponding expert report, with responses within thirty days of service of the motion. In expedited proceedings, motions to exclude could be required as little as a week after the filing of the corresponding report, with responses accelerated in a parallel fashion.

Trial courts should not exclude expert economic testimony without careful consideration of the specific admissibility issues raised, but courts have considerable “latitude in deciding *how* to test an expert’s reliability, and to decide whether or when special briefing or other proceedings are needed to investigate reliability.” *Kumho Tire*, 526 U.S. at 152. In assessing the reliability and fit of expert economic testimony, courts may benefit from declarations from trial or non-trial witnesses, and they may make use of special masters, court appointed experts, or technical advisors. Courts may find an evidentiary hearing useful, although none is required, and a lengthy hearing is most unlikely to be a good use of judicial resources.

See also Chapters II and V, *infra*.

PRINCIPLE I-11 Motions to exclude expert economic testimony made under Rule 702 are appropriate in class certification proceedings.

COMMENT

Rule 702 applies to expert economic testimony in class action certification proceedings; however, in that context, the issue is not “whether a jury at trial should be permitted to rely on” the testimony, but rather whether the court may “utilize it in deciding whether the requisites of Rule 23 have been met.” *In re Visa Check/MasterMoney Antitrust Litigation*, 192 F.R.D. 68, 76-77 (E.D.N.Y. 2000), *aff’d*, 280 F.3d 124 (2d Cir. 2001). In particular, a Rule 702 challenge may be made to reliability and fit of the proposed method for the common proof of damages. *E.g., Corley v. Entergy Corp.*, 220 F.R.D. 478, 485 (E.D. Tex. 2004). Vague references to the use of a method such as “multiple regression” cannot satisfy the burden to establish either the admissibility of the testimony under Rule 702 or the requisites of Rule 23.

See also Chapter III, *infra*.

PRINCIPLE I-12 Motions to exclude expert economic testimony made under Rule 702 are appropriate in bench trials as well as jury trials.

COMMENT

In *Daubert* the Supreme Court held that a trial judge must serve in “a gatekeeping role” pursuant to Federal Rule of Evidence 104(a) by making a “preliminary assessment” of the reliability and fit of proffered expert testimony. 509 U.S. at 592-93, 597. Although judges obviously do not serve in the same gatekeeping role in bench trials as in jury trials, Rule 702 applies to both. There is no risk of a jury being unduly influenced by unreliable evidence when there is no jury, but judicial resources may be conserved by ruling on motions to exclude before commencement of a bench trial. Moreover, all motions to exclude based on Rule 702 eventually should be granted, denied, or dismissed as moot so that the record for possible appeal is clear.

CHAPTER II.
 APPLYING RULES 12, 16 AND 26 TO THE USE OF
 ECONOMIC EVIDENCE IN ANTITRUST CASES

INTRODUCTION

As illustrated in the introduction and throughout this report, economic issues are generally and increasingly intertwined with legal issues in antitrust litigation. An antitrust lawsuit can turn on economic issues in the context of class certification or summary judgment motions, disputes about competitive effect or relevant market, or evidentiary rulings during trial. The pervasiveness of economic issues can extend throughout all stages, including the pretrial stages, of antitrust litigation.

These economic issues merit management focus because economic issues play out in different ways in different types of antitrust cases. In a battle of experts, for example, economic issues may have characteristics of the ultimate question of fact. In considering whether an antitrust claim makes economic sense or is premised on valid economic theory, economic issues have characteristics of questions of law and can sometimes lead to resolutions as a matter of law.

Thus, the economic issues in antitrust litigation merit focus and management from the very beginning of the litigation. Indeed, consistent with Federal Rule of Civil Procedure 1, the focus and management of economic issues can make antitrust litigation faster, cheaper, and more focused on the merits.

PRINCIPLE II-1 The proper consideration of economic analysis should be tailored to the procedural posture of the case, while avoiding unnecessary repetition over the course of the litigation.

COMMENT

Like the antitrust issues with which they are often intertwined, economic issues can arise at multiple stages in an antitrust case. Managing the economic issues requires both analyzing the economic issues in the current procedural context of the litigation, while avoiding the burdens of duplication and inefficiency. Analyzing economic issues is often expensive, and that expense can have a disparate impact on parties with limited resources. In managing the litigation, the court should structure the decisions about economic issues so as to minimize the expense to the parties and the burdens on the court of addressing the same issue repeatedly. For example, motion practice related to economic issues may in many cases be unproductive and unnecessary on issues of whether a complaint states a claim, or whether a class should be certified, while such motion practice may be important and useful with regard to summary judgment or the admissibility of evidence at trial.

PRINCIPLE II-2 An antitrust complaint should rarely be dismissed solely on economic theory.

COMMENT

Parties increasingly make motions to dismiss, and because economic theory is often intertwined with antitrust claims, motions to dismiss in antitrust litigation frequently have an economic component. Motions to dismiss with an economic component are usually predicated on *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986), in which the Supreme Court held that an antitrust claim that did not make any economic sense could not withstand summary disposition. Although *Matsushita* addressed a motion for summary judgment, lower courts have considered motions to dismiss premised on the argument that the antitrust claim did not make any economic sense. *Brunson Communications, Inc. v. Arbitron, Inc.*, 239 F. Supp. 2d 550, 563 (E.D. Pa. 2002); *DM Research, Inc. v. College of Am. Pathologists*, 170 F.3d 53, 56 (1st Cir. 1999); *United Magazine Co. v. Murdoc Magazine Distrib.*, 146 F. Supp. 2d 385, 402 (S.D.N.Y. 2001).

If a complaint alleges the elements of an antitrust violation, motions to dismiss should not be favored. A court should be cautious about granting a motion to dismiss an antitrust claim based solely on economic theory. Economic theory should not be used as a means to ignore or trump the facts underlying the antitrust claim. For example, the Supreme Court emphasized in *Image Technical v. Eastman Kodak*, 504 U.S. 451, 472-73 (1992), that an economic theory cannot override the evidence of record.

Thus, as a general rule, an antitrust complaint need not plead an economic theory. If it does, however, that theory must make economic sense; and if the theory does not, a motion to dismiss may be appropriate.

Similarly, a court can manage litigation to isolate and accelerate consideration of economic issues if the court believes the claim is unlikely to be supported by valid economic theory. Such management techniques and summary judgment motions can avoid the burden, expense, and delay of antitrust litigation when the economic theory is likely to be unreliable or missing altogether.

PRINCIPLE II-3 The central economic issues in antitrust litigation should be described in the initial and other early status conferences.

COMMENT

The objectives of pretrial conferences are to expedite resolution of the action, establish management to speed resolution, discourage waste and burdens, improve the quality of the ultimate resolution of the dispute, and facilitate settlement. Fed. R. Civ. Pro. 16(a). Because economic issues are often central to antitrust disputes, the objectives of pretrial conferences often can be met only if the economic issues are addressed during pretrial conferences. See *Manual for Complex Litigation, Fourth*, §§ 23.32, 30.2; *Reference Manual on Scientific Evidence*, Second, pp. 41-49.

To further the objectives of Rule 16, a court should require the parties to address formally the economic issues early in the antitrust litigation. Addressing the issues would take the form of a statement that describes the relevant economics, contemplated economic testimony, and proposals how the economic issues will be addressed in the litigation. Such a statement can focus the court and the parties on the economic issues and facilitate the just and speedy consideration of how economic issues impact contemplated motions and discovery.

Both the judge and the magistrate judge should be involved in these early efforts to manage the economic issues in the litigation. Many of the economic disputes ultimately will be addressed by the judge in addressing substantive motions, expert evidentiary issues, and trial presentation issues. Thus, the judge's preferences toward and reaction to the economic issues will assist the magistrate judge and the parties in managing presentation and resolution of the economic issues. The judge's involvement can be crucial to furthering the objectives of Rule 16.

The court might also consider having early presentations from economists to orient the court to the economic issues and to ensure that the parties are working to address the economic issues. In certain instances, early presentations by economists will not be advisable because the economic analysis is dependent on facts, which may not be adequately developed without discovery. Yet, when a party seeks expedited consideration of an economic issue, because the party seeks to expedite the litigation or because early resolution of an economic issue is appropriate, early presentations by economists may be a useful litigation management tool.

PRINCIPLE II-4 An economic expert's opinion, including the factual and experiential basis on which that opinion is based, should be fully disclosed.

COMMENT

Managing the disclosure on economic issues, given the complexity of the issues and the centrality to some antitrust litigation, can be challenging. The disclosure should both avoid unfair

surprise, while considering the purpose of the Federal Rules, as articulated in Rule 1, to reach a “just, speedy, and inexpensive determination of every action.” The disclosure should focus on the economic issues of the claims being asserted and include the details and all aspects of each opinion, the reasoning and methods underlying each opinion, and the theories and techniques considered or used in reaching each opinion.

The information reviewed by the economist in reaching the opinion should also be disclosed. Specifically disclosed should be the models that the economist used and the reasons for using those models, and the source of the data or other information put into those models, in enough detail to enable the adversary to duplicate the calculations and probe the analysis. Where necessary to an understanding of the models and methods employed by the economic expert, there should also be disclosure of relevant economic literature on which the expert is specifically relying. The expert’s understanding of or assumptions concerning the facts and the effect of those understandings or assumptions on the opinion expressed should also be specifically disclosed. Moreover, the facts relied on by the expert should be disclosed, as well as the sources for those facts. When data is relied upon, the expert should either produce it, or provide references to available sources from which to obtain it.

Absent evidence of good cause, a court should not allow experts to testify about opinions and the bases for those opinions that were not disclosed. Applying this standard to antitrust litigation is challenging. Guidance from the court in response to summary judgment motions or otherwise, new factual developments, or significant delays in the litigation may constitute good cause. Yet, in an effort to foster prompt resolution of disputes, the court should provide a strong incentive for parties to disclose economic opinions fully and promptly. *See Reference Manual on Scientific Evidence, Second*, pp. 49-53.

PRINCIPLE II-5 The process by which an economic opinion is reached can and should be shielded from discovery.

COMMENT

Because economic testimony should be closely tied to the antitrust claims, a detailed understanding of the antitrust claims furthers the economic analysis of those claims. Indeed, as explained more fully in Chapter I, courts can reject economic testimony that is not directly connected to an antitrust claim. Because the economic analysis is and should be intertwined with the legal analysis, the economic review should interact with the legal review.

Currently each draft of the testifying expert’s report and the expert’s notes are required to be disclosed. This obligation contrasts markedly with an attorney’s review of a claim, where the work product doctrine applies to provide a zone of privacy to the process of reviewing the facts and law relating to the claim. An economist, on the other hand, arguably has no zone of privacy for the process of reviewing the facts and economics relating to the claim. *E.g., Trigon Ins. Co. v. United States*, 204 F.R.D. 277, 283 (E.D. Va. 2001); *B.C.F. Oil Ref. Inc. v. Consolidated Edison*, 171 F.R.D. 57, 62 (S.D.N.Y. 1997); *Hewlett-Packard, Inc. v. Bausch & Lomb, Inc.*, 116 F.R.D. 533, 536 (N.D. Cal. 1987); *W.R. Grace & Co. v. Zotos International*, 2000 U.S. Dist. LEXIS 18091, 2000 WL 1843258, *10 (W.D.N.Y. 2000).

The need to intertwine the economic review with the factual and legal analysis is in tension with the obligation to disclose the economist’s drafts and notes. When drafts are discoverable, parties may engage in non-productive strategic behavior because drafts allow adversaries to argue that any differences illustrate that the final expert opinion is faulty, false, or the result of undue attorney influence. Disclosure of drafts fosters unproductive depositions focused on immaterial details. Economists can lessen this strategic behavior by lessening their interaction with others who review the factual or legal issues, with the effect of distancing the economic analysis from the other analyses of the claim. Lawyers can retain non-testifying economists to combine the economic and legal review, without giving rise to disclosure obligations. Testifying economists learn not to keep drafts and not to take notes, even if taking notes or keeping drafts would improve the economic analysis. Testifying economists sometimes rely on others to draft their report and to combine the economic analysis with the factual analysis.

Parties and the court can and should foster improved economic analysis by avoiding the adverse consequences of disclosure of drafts. Not allowing discovery of drafts will permit the expert to develop opinions, without worrying about defending each written word and each idea considered in the course of the work. The parties can by agreement avoid discovery of economists' drafts. The court can endorse such an agreement as part of a case management order.

Notes taken by the economist should stand on substantially the same footing as an attorney's work product. They should be immune from disclosure if they are precursors to and foundation for the economist's opinion. Even notes that reflect factual inquiry by the economist, such as interviews, field research, and the like, should seldom be discoverable, unless the party seeking production can show good cause and substantial prejudices from not having the notes. Notes that reflect economic analysis, such as developing thoughts or approaches for economic opinions, should not be discoverable. Under present practice, the discoverability of notes leads experts not to take notes at all, or leads the parties to resort to absurd and unseemly measures to avoid and evade discovery, such as providing an attorney to sit with and take notes for an expert. Courts, litigants, and experts would all be better off if the notes were generally not discoverable.

CHAPTER III.
BEST PRACTICES IN USING ECONOMICS FOR CLASS CERTIFICATION
MOTIONS UNDER RULE 23 OF THE FEDERAL RULES OF CIVIL PROCEDURE

INTRODUCTION

As economic concerns have become increasingly prominent in antitrust, it has become standard practice to use economic testimony in support of, or in opposition to, class certification motions. Even in horizontal price-fixing cases, where the *per se* rule limits the use of economics, economic testimony is typically proffered in support of the class certification motion. In most antitrust cases, economic testimony is often necessary to show that antitrust injury can be shown by proof common for all class members. Economic testimony also may be critical to show that individual damages can be proven by a common mechanical formula.

Even though class certification motions are not preliminary inquiries into the merits of the case, parties often introduce economic testimony on class motions to preview their case on the merits. As discussed more fully below, this practice can be problematic, and, as a general rule, economic testimony should be limited to class issues. Courts should not (and usually do not) permit a duel of economic testimony on the merits at the class certification stage. In cases where class and merits issues overlap, however, it may be necessary to delve into merits-based economic issues on a class certification motion. When that happens, economic testimony on the merits should be limited to those issues where class and merits issues are inextricably intertwined. Before setting forth principles regarding the use of economics on a class motion, a brief description of Rule 23 of the Federal Rules of Civil Procedure (“Rule 23”) is in order.

1. Rule 23

To be certified as a class action, a case must satisfy all four prerequisites of subsection (a) of Rule 23 and at least one of the criteria set forth in subsection (b). The burden of satisfying these elements rests on the proponent of the class.

(i) Rule 23(a)

Rule 23(a) sets forth four prerequisites, each of which must be satisfied, in order to maintain a class action. These requirements are:

- (1) The class members are so numerous that joinder is procedurally impractical;
- (2) Common questions of law or fact are present;
- (3) The claims or defenses of the representatives are typical of those of the class; and
- (4) The putative class representative can fairly and adequately represent the entire class.

(ii) Rule 23(b)

In addition to the prerequisites set forth in Rule 23(a), a party must satisfy at least one of the three criteria outlined in Rule 23(b). These criteria are:

- (1) The case would create a risk of inconsistent or varying adjudications affecting the interests of absent class members;
- (2) The appropriate relief would be injunctive or declaratory; and
- (3) The case involves common questions of law or fact that predominate over individual questions, and the class action device is superior to any other method for the fair and efficient adjudication of the issues in question.

2. Rule 23 Applied

In antitrust class actions, expert economic evidence is offered in certification proceedings most often on issues of whether impact and damages are susceptible of class-wide proof. To show that impact is susceptible to class-wide proof, class action plaintiffs are required to proffer a plausible method of proving that the vast majority of the class has been injured. On a class motion, an expert report must support plaintiffs' "minimum burden of showing there is a reasonable probability of establishing . . . common impact." *In re Playmobil Antitrust Litig.*, 35 F. Supp. 2d 231, 247 (E.D.N.Y. 1998). "To show impact is susceptible to class-wide proof, [p]laintiffs are not required to show that the fact of injury actually exists for each class member." *In re Cardizem CD Antitrust Litig.*, 200 F.R.D. 297, 307 (E.D. Mich. 2001). *But see Newton v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 259 F.3d 154, 185-86 (3d Cir. 2001) (to prove common impact, "the common proof [must] adequately demonstrate[] some damage to each individual" member of the class) (quoting *Bogosian v. Gulf Oil Corp.*, 561 F.2d 434, 454 (3d Cir. 1977)).

As to damages, differences in the amount of damage suffered by individual class members will not defeat class certification if a plausible method for showing class-wide impact has been advanced by the plaintiff. *Playmobil*, 35 F. Supp. 2d at 246 ("[I]f members of the class suffered varying amounts in damages, this does not interfere with establishing a class action"). While purported conflicts that are merely speculative or hypothetical will not defeat certification, where there is evidence that the economic interests of class members conflict (as some members may have benefited from the conduct at issue, while others may have been harmed), class certification should be denied. "A fundamental conflict exists where some party members claim to have been harmed by the same conduct that benefited other members of the class. In such a situation, the named representatives cannot 'vigorously prosecute the interests of the class through qualified counsel' because their interests are actually or potentially antagonistic to, or in conflict with, the interests and objectives of other class members." *Valley Drug Co., v. Geneva Pharms., Inc.*, 350 F.3d 1181, 1189 (11th Cir. 2003).

On a class motion, expert reports are scrutinized in a manner different from the way they are at summary judgment or trial. *Caridad v. Metropolitan-North Commuter R.R.*, 191 F.3d 283, 292 (2d Cir. 1999) (Expert "dueling is not relevant to the certification determination," even though it may "prove fatal at the merits stage.") The merit of an expert report "is a matter to be ascertained by trial and not for a determination as to the appropriateness of class certification." *In re Sumitomo Copper Litig.*, 182 F.R.D. 85, 91 (S.D.N.Y. 1998); *In re Industrial Diamonds Antitrust Litig.*, 167 F.R.D. 374, 384 (S.D.N.Y. 1996) ("We need not consider [defendants' expert's criticisms of methodology employed by plaintiff's expert] in detail, as it is for the jury to evaluate this conflicting evidence and to determine what weight to give to the expert's conclusions.") Many cases recognize, however, that class and merits issues are often intertwined. When that is so, courts will engage in a preliminary inquiry into the merits to determine whether class certification is appropriate. *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 469 n. 12 (1978) ("[M]any of the questions entering into [a] determination of class action questions [are] intimately involved with the merits of the claim.")

The standard for evaluating a proposed damages methodology is more relaxed than the burden for showing probability of common impact. *In re Catfish Antitrust Litig.*, 826 F. Supp. 1019, 1042 (N.D. Miss. 1993) ("The court's role at the class certification stage in assessing the proposed methods of proving damages is quite limited. The preliminary inquiry is whether or not the proposed methods are so insubstantial that they amount to no method at all.") Class treatment is likely to be unsuitable where the calculation of damages is not susceptible to a mathematical or formulaic calculation, or where the formula by which the parties propose to calculate individual damages is clearly inadequate. Where individual damage "does not lend itself to . . . mechanical calculation, but requires 'separate mini-trial[s]' of an overwhelming[ly] large number of individual claims," class certification will be denied. *Windham v. American Brands, Inc.*, 565 F.2d 59, 68 (4th Cir. 1977); *see also Broussard v. Meineke Discount Muffler Shops, Inc.*, 155 F.3d 331, 342 (4th Cir. 1998) (decertifying class because, among other things, "each putative class member's claim for lost profits damages was inherently individualized and thus not easily amenable to class treatment").

If the proffered damages methodology would inevitably require thousands of individual trials, class certification will be denied for lack of manageability. *Abrams v. Interco Inc.*, 719 F.2d 23, 31 (2d Cir. 1983) (“An even more serious problem of manageability relates to damages. Each member[s] damages] . . . would be complicated by the scores of different products involved, varying local market conditions, fluctuations over time, and the difficulties of proving consumer purchasers after a lapse of five or ten years.”) If the classwide damages methodology will likely fail to produce an adequate approximation of any individual class member’s damages, certification will also be denied. *Bell Atlantic Corp. v. AT&T Corp.*, 339 F.3d 294, 304 (5th Cir. 2003) (“Upon reviewing the record, however, we are not convinced that this proposed damages calculus represents an adequate approximation of any single class member’s damages, let alone a just and reasonable estimate of the damages of every class member included in the two putative classes.”)

PRINCIPLE III-1 On motions for class certification, economic evidence should not be subjected to a higher standard of scrutiny than other types of evidence bearing on class issues.

COMMENT

Antitrust plaintiffs typically submit expert testimony, usually from an economist, to support their motion for class certification. Economic testimony is often used to show that common questions predominate, and that the plaintiff has come forward with a plausible method to show class-wide injury. Even in horizontal price-fixing cases -- which generally are the most straightforward antitrust cases to certify as class actions -- plaintiffs often need to submit economic testimony to show class-wide impact where either the products are differentiated, there are different classes of purchasers, or there are regional variations in pricing. Other antitrust cases (particularly tying cases) raise even more complex questions regarding class-wide injury that suggest the efficacy of using an economist.

In a case involving a class of purchasers of Playmobil products alleging a vertical price-fixing conspiracy between Playmobil and its independent retailers, the court found predominance of common questions, as plaintiffs’ expert “met the minimum burden of showing there is a reasonable probability of establishing . . . common impact.” *In re Playmobil Antitrust Litig.*, 35 F. Supp. 2d 231, 247 (E.D.N.Y. 1998). In so holding, the court stressed that “the battle of the experts is properly left for the trier of fact to determine.” *Id.*

PRINCIPLE III-2 Economic evidence submitted in class certification proceedings should be strictly limited to class issues under Rule 23, such as commonality of proof of violation, impact, or damages.

COMMENT

Defendants typically submit economic testimony in opposition to class motions. In some cases, the parties have used the class certification motion to educate the court about the economic theories they intend to use on summary judgment or at trial. The benefits and risks of this approach must be weighed carefully. On the plus side, this tactic might make an impression on the court and therefore contribute in some measure to dismissal of the case on summary judgment.

On the other hand, because courts typically do not indulge in a duel of experts at the class certification stage, when a class certification expert opines upon the merits of the case, the court may simply disregard the opinion, including those portions that are relevant to class issues. Moreover, this strategy can hurt defendants at the summary judgment stage. When courts disregard economic arguments at the class certification stage, they may be disinclined to accept the same arguments when they hear them a second time at summary judgment. For these reasons, economist reports on class certification be confined to issues pertaining to the viability of the case as a class action.

PRINCIPLE III-3 In horizontal price-fixing cases, economic evidence may be helpful in showing whether class-wide proof is or is not feasible with regard to impact or damages.

COMMENT

In price-fixing cases, “[c]ourts repeatedly have held that the existence of a conspiracy is the predominant issue [and warrants] certification of the class even where significant individual issues are present.” *In re Nasdaq Market-Makers Antitrust Litig.*, 169 F.R.D. 493, 518 (S.D.N.Y. 1996). Some courts have held that “as a general rule, an illegal price-fixing scheme presumptively impacts upon all purchasers of a price-fixed product in a conspiratorially affected market.” *In re Alcoholic Beverages Litig.*, 95 F.R.D. 321, 327 (E.D.N.Y. 1982) (internal quotation omitted).

There are, however, many price-fixing cases where economic testimony is central to the certification decision. These include the following:

In a case involving a putative class of bromine purchasers, economic testimony was necessary to address defendants’ argument that numerosity and predominance of common questions were not present because various bromine products traded in different markets. *Bromine Antitrust Litig.*, 203 F.R.D. 403 (S.D. Ind. 2001).

In a case involving a putative class and subclass of flat glass purchasers alleging horizontal price-fixing, the court used economic evidence to show common impact and to show that regression analysis could be used to establish fact of damage for the subclasses. *In re Flat Glass Antitrust Litig.*, 191 F.R.D. 472 (W.D. Pa. 1999).

In a case involving a putative class of quota holders and direct sellers of tobacco alleging price-fixing in the tobacco industry, economic evidence was necessary to show predominance of common questions and to rebut defendants’ argument that the non-fungible nature of tobacco created individual questions that undermined the viability of the class. *DeLoach v. Philip Morris Cos.*, 206 F.R.D. 551 (M.D.N.C. 2002).

In a case involving a putative class of food distributors alleging that catfish processors had conspired to fix prices, economic testimony helped show common injury and potential methodologies for computing individual damages. *In re Catfish Antitrust Litig.*, 826 F. Supp. 1019 (N.D. Miss. 1993). The court, however, found that much of the expert testimony was superfluous, as the opinions were pertinent to the merits and not class certification.

In a case involving a putative class of fertilizer producers alleging that potash producers had conspired to raise prices, economic evidence was used to rebut defendants’ contention that fact of injury could not be proven in common due to the fungibility of potash and to the differences between class members’ purchasing behavior. *In re Potash Antitrust Litig.*, 159 F.R.D. 682 (D. Minn. 1995).

In a case involving a putative class of buyers of industrial diamonds, the class was certified, in part, based on economic testimony that showed predominance of common questions, notwithstanding the diversity of defendants’ products and variations in discounts, credits and rebates offered by defendants. *In re Industrial Diamonds Antitrust Litig.*, 167 F.R.D. 374 (S.D.N.Y. 1996).

In a case involving price-fixing allegations in the magnetic audiotape industry, economic analysis of defendants’ sales data was used to show class-wide impact. *In re Magnetic Audiotape Antitrust Litig.*, No. 99 Civ. 1580, 2001 WL 619305 (S.D.N.Y. June 6, 2001). Defendants tendered economic evidence regarding individualized pricing in the industry, differences between purchasers, and variances in prices for the products in question. The court certified the class, disregarding the dueling of the experts because the plaintiff had carried its burden of proffering a plausible method for determining class-wide impact:

At this stage in the proceedings, the Court only must find that plaintiffs have set forth a valid methodology for proving antitrust impact common to the class, not that they will prove it. Plaintiffs have proposed a method which could prove that the defendants charged similar prices class-wide and which appears to take into account the variables of the audiotape industry that defendants claim preclude such proof.

Magnetic Audiotape, 2001 WL 619305, at *6.

In a case involving putative classes of purchasers of various products that use linerboard as an input, testimony of plaintiffs' economist was necessary to establish common questions where defendants argued that plaintiffs did not purchase in the linerboard market and instead only purchased products that incorporated linerboard. *In re Linerboard Antitrust Litig.*, 203 F.R.D. 197 (E.D. Pa. 2001). Plaintiff's expert, for example, examined the close relationship between linerboard prices and the prices of the products purchased by plaintiffs to rebut defendants' argument. The court cited testimony of plaintiffs' expert to rebut defendants' contention that long-term contracts held by some plaintiffs created conflicts among class members. The court also relied on plaintiffs' expert presentation of plausible methods to establish class-wide damages to certify the class.

PRINCIPLE III-4 In cases involving vertical restraints, including vertical price-fixing, economic evidence may be helpful to show common impact.

COMMENT

With the exception of minimum vertical price-fixing cases, vertical cases will be analyzed under the rule of reason. In such cases, to establish antitrust injury, plaintiffs must show a substantial injury to competition and that their injuries stem from the harm to the competitive process. It is difficult to show that this issue is susceptible to common proof without economic testimony, particularly in cases (such as those involving exclusive territories) where local market conditions may necessitate an individualized inquiry to show injury.

Economic testimony also may be necessary in minimum vertical price-fixing cases, particularly those that involve allegations that a manufacturer conspired with numerous individual retailers to fix resale prices. While these cases fall under the *per se* rule, proving a single conspiracy common to the class may be difficult without economic testimony. In a case involving a putative class of consumers alleging a vertical minimum price-fixing conspiracy between a manufacturer of shoes and approximately 7,800 independent retail stores, the court denied class certification because individual questions regarding the defendant manufacturer's dealings with thousands of retail stores would have predominated over common questions. *Abrams v. Interco Inc.*, 719 F.2d 23 (2d Cir. 1983). In a case involving a putative class of independent beer wholesalers asserting that exclusive territories established by brewer defendants and franchised wholesalers violated the antitrust laws, the court declined to certify the class because analysis of injury to competition would likely have varied based on local market conditions. *Vasiliow Co. v. Anheuser-Busch, Inc.*, 117 F.R.D. 345 (E.D.N.Y. 1987).

PRINCIPLE III-5 In other types of cases, such as tying, market allocation, or monopolization cases, economic evidence may be helpful in showing whether or not causation or fact of injury can be proved on a class-wide basis.

COMMENT

Unlike horizontal price-fixing cases where antitrust injury and causation may be inferred from proof of the conspiracy, in most other antitrust cases antitrust injury and causation must be proved based on the alleged restraint's impact on the market and the plaintiff. Economic testimony may be helpful, and in some cases critical, to prove commonality.

In a case involving a class of merchants who purchased Visa/MasterCard credit card services and were also forced to purchase Visa/MasterCard debit card services at supra-competitive prices, the court, in certifying the class, cited plaintiffs' economist's "price theory" that in a but-for world defendants would have lowered their interchange prices to all merchants in order to maintain universal acceptance. *In re Visa Check/MasterMoney Antitrust Litig.*, 192 F.R.D. 68, 83 (E.D.N.Y. 2000). The court also addressed defendants' contention that in a tying case, "elementary economic theory" predicts that a defendant with market power will respond to a decline in the price of the tied product by imposing an offsetting increase in the price of the tying product. *Id.* The plaintiffs rebutted this argument with economic theory showing that defendants' argument was inapposite to variable proportion ties, as well as empirical evidence demonstrating that Visa and MasterCard's tying arrangements had maintained their market power in the tying product market. *Id.* at 83-84. Thus, in a but-for world, the price of both the tying and tied products would have been lower, and all class members would have been better off.

In a case involving a class of direct purchasers of Cardizem, seeking damages for the conspiracy between Cardizem and a potential generic competitor to delay generic entry, the court, in certifying the class, cited plaintiffs' expert's conclusion that "all or substantially all" of the class would have substituted the lower-priced generic but for the conspiracy, and that entry would have disciplined pricing in the market. *In re Cardizem CD Antitrust Litig.*, 200 F.R.D. 297, 308 (E.D. Mich. 2001). The court also relied on non-economic testimony to certify the class, including defendants' own models and forecasts predicting significant generic penetration and cheaper prices, and government and academic studies showing the impact of generic entry in pharmaceutical markets.

In a monopolization case, the Court of Appeals for the Fifth Circuit affirmed the denial of a class certification motion because, among other things, the plaintiffs failed to show a common method of proving fact of injury. *Bell Atlantic Corp., v. AT&T Corp.*, 339 F.3d 294 (5th Cir. 2003).

PRINCIPLE III-6 In cases where the plaintiffs are pursuing multiple theories on liability or damages, economic testimony may be helpful in showing whether or not class members' interests conflict.

COMMENT

The court denied certification in a case where some class members' interest would have been to pursue an overcharge theory, while others would have preferred a lost profits theory of damages. According to the court, these different theories of damages created an inherent conflict between class members. *Bradburn Parent/Teacher Store, Inc. v. 3M*, No. Civ. A. 02-7676, 2004 WL 414047 (E.D. Pa. Mar. 1 2004). The court later certified the class when it was limited to class members with a common interest in pursuing a potential overcharge (but not lost profits) damage theory. *Bradburn*, 2004 WL 1842987 (E.D. Pa. Aug. 18, 2004).

In a case involving a class of direct purchasers of a branded pharmaceutical whose price was allegedly elevated by market allocation agreements with potential generic competitors, the Court of Appeals for the Eleventh Circuit vacated an order certifying the class and remanded the case for further discovery regarding whether the interests of certain members of the class (who benefited from the allegedly higher prices for the branded product) were in conflict with the interests of others (who were harmed by the alleged overcharges). *Valley Drug Co. v. Geneva Pharms.*, 350 F.3d 1181 (11th Cir. 2003). On remand, the district court decertified the class, citing the inherent conflict of interest among putative class members. *In re Terazosin Hydrochloride Antitrust Litig.*, No. 99-MDL-1317, 98-3125, 99-7143, 2004 WL 2072362 (June 23, 2004).

PRINCIPLE III-7 In most antitrust cases, economic testimony should be helpful to show whether or not the case is manageable as a class action because a common method exists to prove individual damages.

COMMENT

While the standard for evaluating a proposed damages methodology is more relaxed than the burden for showing probability of common impact, many appellate courts have denied certification because individual class members would have to prove their damages. If the proffered damages methodology would inevitably require thousands of individual trials, class certification is generally denied on manageability grounds. As a result, economic testimony may be helpful (particularly in cases with a large number of putative class members) to show that individual damages may be determined by a mathematical or formulaic calculation.

Proof of individual damages in class actions also must satisfy the general standards for establishing antitrust damages. Once liability has been established, antitrust plaintiffs are not held to a stringent burden with respect to proving damages. Proof of damages, however, may not be based on speculation or guesswork. Individual damages should be based on a “just and reasonable estimate of the damage based on relevant data.” *Bigelow v. RKO Radio Pictures*, 327 U.S. 251, 580 (1946). If a proposed class-wide damages methodology falls short of this standard because it fails to produce an adequate approximation of any individual class member’s damages, certification will be denied. *Windham v. American Brands, Inc.*, 565 F.2d 59, 68 (4th Cir. 1977) (Where an individual damages methodology “does not lend itself to . . . mechanical calculation, but requires ‘separate mini-trial[s]’ of an overwhelming[ly] large number of individual claims,” class certification will be denied.) In *Broussard v. Meineke Discount Muffler Shops, Inc.*, 155 F.3d 331, 342 (4th Cir. 1998), the court rejected a proposed class because, among other things, “each putative class member’s claim for lost profits damages was inherently individualized and thus not easily amenable to class treatment.” In *Abrams v. Interco Inc.*, 719 F.2d 23, 31 (2d Cir. 1983), the court determined that “[a]n even more serious problem of manageability relates to damages. Each member[s] damages] . . . would be complicated by the scores of different products involved, varying local market conditions, fluctuations over time, and the difficulties of proving consumer purchasers after a lapse of five or ten years.” In *Bell Atlantic Corp., v. AT&T Corp.*, 339 F.3d 294, 304 (5th Cir. 2003), the court held that “[u]pon reviewing the record . . . we are not convinced that this proposed damages calculus represents an adequate approximation of any single class member’s damages, let alone a just and reasonable estimate of the damages of every class member included in the two putative classes.”

PRINCIPLE III-8 In class certification proceedings, Daubert rules should be limited to considering whether proffered economic evidence is sufficiently reliable to be considered in those proceedings, and should not be used to consider trial admissibility.

COMMENT

Because *Daubert* inquiry is intended to shield the finder of fact at trial from fundamentally flawed expert opinions, use of *Daubert* in class certification proceedings should focus on the issues raised by those proceedings, which are different from and narrower than issues of trial admissibility. Recognizing this distinction, courts have held that a limited *Daubert* test may be performed at the class certification stage. *In re Visa Check/MasterMoney Antitrust Litig.*, 192 F.R.D. 68, 76-77 (E.D.N.Y. 2000) (“Although there is a role for a *Daubert* test here, it is a limited one, tailored for the purpose for which the expert opinion is offered. The question is not, therefore, whether a jury at trial should be permitted to rely on [plaintiffs’ economist’s report] to find facts as to liability, but rather whether I may utilize it in deciding whether the requisites of Rule 23 have been met.”)

CHAPTER IV. ECONOMIC EVIDENCE AND SUMMARY JUDGMENT

INTRODUCTION

Rule 56(c) of the Federal Rules of Civil Procedure provides that, upon an appropriate motion, summary judgment “shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.” Fed. R. Civ. P. 56(c); see *Celotex Corp. v. Catrett*, 477 U.S. 317, 321-23, 327 (1986); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48 (1986); *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 585-87 (1986). Summary judgment is not a “disfavored procedural shortcut,” but an important device to “to isolate and dispose of factually unsupported claims or defenses.” *Celotex Corp. v. Catrett*, 477 U.S. at 324.¹ Today, grants of summary judgment in antitrust cases are common.² Nonetheless, the Supreme Court has also said, “Summary procedures should be used sparingly in complex antitrust litigation where motive and intent play leading roles, the proof is largely in the hands of the alleged conspirators, and hostile witnesses thicken the plot.” *Poller v. Columbia Broadcasting Sys., Inc.*, 368 U.S. 464, 473 (1962). The Court has never disavowed this statement, and lower courts from time to time refer to it. *E.g., Dickson v. Microsoft Corp.*, 309 F.3d 193, 212 (4th Cir. 2002).

1. Rule 56

To be entitled to summary judgment, the moving party must prove that there is no genuine issue of material fact to be resolved before judgment is rendered and that on the undisputed facts the moving party is entitled to judgment as a matter of law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 256; *Celotex Corp. v. Catrett*, 477 U.S. at 322-23; *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 456 (1992). A fact is “material” if it may affect the legal outcome under the governing law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 248. An issue of material fact is “genuine” if, under the applicable evidentiary standard, a reasonable trier of fact could find for the nonmoving party on the issue, so that the issue cannot be decided absent trial. *Id.*³

In a motion for summary judgment on a claim where the moving party would bear the burden of persuasion at trial, the moving party must submit affirmative evidence that demonstrates a *prima facie* showing of each and every element of its *prima facie* case or defense, so that in the absence of any contravention the moving party would be entitled to judgment as a matter of law.⁴ Once the moving party has satisfied this initial burden, the burden shifts to the opposing party. The party opposing summary judgment may not rest on its pleadings but must present “significant probative evidence” demonstrating that a genuine dispute of material fact exists and that the moving party is not entitled to judgment as a matter of law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 249. In particular, the opposing party may defeat a motion for summary judgment by either: (1) demonstrating that the moving party’s evidence, even if uncontested, is insufficient to establish one or more essential elements of the moving party’s *prima facie* case; or (2) submitting affirmative evidence

1. See *Tops Markets, Inc. v. Quality Markets, Inc.*, 142 F.3d 90, 95 (2d Cir. 1998) (“By avoiding wasteful trials and preventing lengthy litigation that may have a chilling effect on pro competitive market forces, summary judgment serves a vital function in the area of antitrust law.”); *Collins v. Associated Pathologists, Ltd.*, 844 F.2d 473, 475 (7th Cir. 1988) (“[T]he very nature of antitrust litigation encourages summary disposition of such cases when permissible.”); cf. *Eastern Food Servs., Inc. v. Pontifical Catholic Univ. Servs. Ass’n, Inc.*, 2004 WL 110844 (1st Cir. Jan. 20, 2004) (“The time of judges and lawyers is a scarce resource; the sooner a hopeless claim is sent on its way, the more time is available for plausible causes.”); *Raskin v. Wyatt Co.*, 125 F.3d 55, 66 (2d Cir. 1997) (“The resolution of evidentiary questions on summary judgment conserves the resources of the parties, the court, and the jury.”).

2. See, e.g., *Thompson Everett, Inc. v. National Cable Advertising, L.P.*, 57 F.3d 1317, 1322 (4th Cir. 1995) (“[B]ecause of the unusual entanglement of legal and factual issues frequently presented in antitrust cases, the task of sorting them out may be particularly well-suited for Rule 56 utilization.”); *Indiana Grocery, Inc. v. Super Valu Stores, Inc.*, 864 F.2d 1409, 1412 (7th Cir. 1989) (“The Supreme Court has emphasized, however, that summary judgment may be especially appropriate in an antitrust case because of the chill antitrust litigation can have on legitimate price competition.”) (citing *Matsushita Electric Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 594-95 (1986)); *McCahee v. Northern Propane Gas Co.*, 858 F.2d 1487, 1493 (11th Cir. 1988).

3. *Accord Nebraska v. Wyoming*, 507 U.S. 584, 590 (1993); *Celotex Corp. v. Catrett*, 477 U.S. at 322; see also *Thompson Everett, Inc. v. National Cable Advertising, L.P.*, 57 F.3d 1317, 1322 (4th Cir. 1995) (“While it is axiomatic that Rule 56 must be used carefully so as not improperly to foreclose trial on genuinely disputed, material facts, the mere existence of some disputed facts does not require that a case go to trial. The disputed facts must be material to an issue necessary for the proper resolution of the case, and the quality and quantity of the evidence offered to create a question of fact must be adequate to support a [judgment in favor of the nonmoving party].”).

4. The analogous standard applies where a defendant moves for summary judgment on the basis of an affirmative defense. *Rushing v. Kansas City S. Ry. Co.*, 185 F.3d 496, 505 (5th Cir. 1999).

sufficient to create a genuine issue of material fact on one or more essential elements of the moving party's prima facie case. *Celotex Corp. v. Catrett*, 477 U.S. at 324; see *Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 256-57; *First Nat'l Bank v. Cities Serv. Co.*, 391 U.S. 253, 288-90 (1968).

Where the moving party would not bear the burden of persuasion at trial, the moving party may either: (1) demonstrate that the non-moving party's evidence is insufficient to establish one or more essential elements of the non-moving party's claim; or (2) submit affirmative evidence that negates an essential element of the nonmoving party's claim. *Celotex Corp. v. Catrett*, 477 U.S. at 327, 325. The burden then shifts to the non-moving party to submit affirmative evidence sufficient to create a genuine issue of material fact on each of the elements of the non-moving party's prima facie case put in issue by the motion for summary judgment. *M&M Medical Supplies & Serv., Inc. v. Pleasant Valley Hosp., Inc.*, 981 F.2d 160, 163 (4th Cir. 1993) (*en banc*) (citing *Celotex*).

In deciding a motion for summary judgment, the court must review the record "taken as a whole." *Matsushita Electric Indus. Co. v. Zenith Radio Corp.*, 475 U.S. at 587; accord *Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150 (2000). The court must construe the evidence in the light most favorable to the non-moving party without weighing it, assessing its probative value, or resolving any factual disputes. See, e.g., *Williams v. Time Warner Operation, Inc.*, 98 F.3d 179, 181 (5th Cir. 1996). Determinations of the weight to accord evidence or of the credibility of witnesses are within the sole province of the jury and as such are improper on a motion for summary judgment.⁵

2. Admissibility and the summary judgment record

Rule 56(e) governs the record in a summary judgment proceeding and provides in pertinent part:

Supporting and opposing affidavits shall be made on personal knowledge, shall set forth such facts as would be admissible in evidence, and shall show affirmatively that the affiant is competent to testify to the matters stated therein.⁶

Rule 56(e) requires that, when deciding a motion for summary judgment, a federal district court may consider only admissible evidence.⁷ Pursuant to Rule 104(a), the court must evaluate evidence for admissibility before it considers that evidence in ruling on a summary judgment motion.⁸

3. Sufficiency

Sufficiency of the evidence is analytically separate and distinct from admissibility.⁹ Admissibility pertains to the threshold determination whether particular proffered evidence ought to be admitted for the consideration of the trier of fact, while sufficiency asks whether the collective

5. See, e.g., *McCorvey v. Baxter Healthcare Corp.*, 298 F.3d 1253, 1257 (11th Cir. 2002); *Humetrix, Inc. v. Gemplus S.C.A.*, 268 F.3d 910, 919 (9th Cir. 2001) ("Authority to determine the victor in such a 'battle of expert witnesses' is properly reposed in the jury."); *Wylar Summit Partnership v. Turner Broadcasting System, Inc.*, 235 F.3d 1184, 1192 (9th Cir. 2000) ("Weighing the credibility of conflicting expert witness testimony is the province of the jury."); *Carlo v. Keller Ladders, Inc.*, 211 F.3d 465, 468 (8th Cir. 2000) ("Determining the credibility of a witness is the jury's province, whether the witness is lay or expert."); *Heating & Air Specialists, Inc. v. Jones*, 180 F.3d 923, 936 n.8 (8th Cir. 1999); *Newport Ltd. v. Sears, Roebuck & Co.*, 6 F.3d 1058 (5th Cir. 1993) ("Where, as here, the district court has not excluded expert evidence as inadmissible, it ordinarily is the province of the jury to gauge the expert witness's credibility and the reliability of his data.").

6. Fed. R. Civ. P. 56(e). Some courts have held that the opinion of an expert is the expert's "personal knowledge" within the meaning of Rule 56(e) and should be accepted into the summary judgment record to the extent it is admissible under the Federal Rules of Evidence. See *United States v. Dailide*, 227 F.3d 385, 406 (6th Cir. 2000). Other courts hold that the rules of evidence provide an exception to the "personal knowledge" requirement for otherwise admissible expert testimony. See, e.g., *City of Chanute, Kansas v. Williams Natural Gas Co.*, 743 F. Supp. 1437, 1444 (D. Kan. 1990).

7. See, e.g., *Orr v. Bank of Am., NT & SA*, 285 F.3d 764, 773 (9th Cir. 2002); *Sports Unlimited, Inc. v. Lankford Enterprises, Inc.*, 275 F.3d 996, 999 (10th Cir. 2002); *Nona Beverages, Inc. v. Perrier Group of America, Inc.*, 269 F.3d 114, 123 (2d Cir. 2001); *Raskin v. Wyatt Co.*, 125 F.3d 55, 66 (2d Cir. 1997); *Duluth News-Tribune v. Mesabi Publishing Co.*, 84 F.3d 1093, 1098 (8th Cir. 1996); *Wiley v. United States*, 20 F.3d 222, 226 (6th Cir. 1994); *Arnold Pontiac-GMC, Inc. v. Budd Bae, Inc.*, 826 F.2d 1335, 1339 n.3 (3d Cir. 1987); *Hall v. United Air Lines, Inc.*, 296 F. Supp. 2d 652, 666 n.17 (E.D.N.C. 2003).

8. Rule 104(a) provides:

Preliminary questions concerning the qualification of a person to be a witness, the existence of a privilege, or the admissibility of evidence shall be determined by the court, subject to the provisions of subdivision (b) [relevance conditioned on fact]. In making its determination it is not bound by the rules of evidence except those with respect to privileges.

9. See *Vollmert v. Wisconsin Dep't of Transp.*, 197 F.3d 293, 298 (7th Cir. 1999); *Ambrosini v. Labarraque, M.D.*, 966 F.2d 1464, 1470 (D.C. Cir. 1992); *Monks v. General Elec. Co.*, 919 F.2d 1189, 1192-93 (6th Cir. 1990); *Mid-State Fertilizer Co. v. Exchange Nat'l Bank of Chicago*, 877 F.2d 1333, 1339 (7th Cir. 1989); *Evers v. General Motors Corp.*, 770 F.2d 984, 986 (11th Cir. 1985); *United States v. Various Slot Machines on Guam*, 658 F.2d 697, 700-701 (9th Cir. 1981); *Merit Motors, Inc. v. Chrysler Corp.*, 569 F.2d 666, 673 (D.C. Cir. 1977).

weight of the evidence taken as a whole is adequate to support a judgment in a party's favor. Although *Daubert* significantly changed the standards governing the admissibility of expert evidence by expanding the gatekeeper role of the district courts in evaluating reliability and relevance, neither *Daubert* nor its progeny changed the standards for evaluating the sufficiency of admitted evidence, even when expert testimony is a critical part of the evidentiary record. Indeed, the standard for determining whether a witness may offer expert testimony does not require the proponent of the testimony to prove that the expert's opinion is correct. See, e.g., *In re Paoli R.R. Yard PCB Litig.*, 35 F.3d 717, 744 (3d Cir. 1994); *ID Sec. Sys. Canada, Inc. v. Checkpoint Sys., Inc.*, 198 F. Supp.2d 598, 605 (E.D. Pa. 2002). The focus of a *Daubert* inquiry is on the principles and methodology employed by the expert and not on the conclusions. *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 595 (1993).

On a motion for summary judgment, the essential sufficiency question is whether, on the evidence properly admitted into the summary judgment record, the moving party would be entitled to judgment as a matter of law at trial, or whether a reasonable fact finder, under the applicable evidentiary standard, could return a verdict for the non-moving party. On an element on which a party bears the burden of proof, the evidence must be sufficient to permit the trier of fact to find for the party on that element at trial. See, e.g., *Menasha Corp. v. News America Marketing In-Store, Inc.*, 238 F. Supp.2d 1024 (N.D. Ill. 2003) (rejecting expert report as insufficient to create a genuine issue of material fact on market definition). On an element on which the opposing party has the burden of proof, the evidence must be sufficient to permit the trier of fact to find for the party by a preponderance of the evidence (or whatever other quantum of proof is required on the issue) in light of the opposing party's evidence. See *Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 248 (“[S]ummary judgment will not lie if the dispute about a material fact is ‘genuine,’ that is, if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.”). The applicable evidentiary standard is important, since a party's failure to raise at least a genuine issue of material fact under the evidentiary standard with respect to an essential element of its *prima facie* case or defense on which it bears the burden of proof is grounds for rejecting its claim or defense, even in the absence of evidence on the element by the opposing party. See, e.g., *Daubert v. Merrell Dow Pharm., Inc.*, 43 F.3d 1311, 1315 (9th Cir. 1995), on remand from 509 U.S. 579 (1993). See generally *Celotex Corp. v. Catrett*, 477 U.S. at 325.

4. Necessity

Finally, if an expert report is found inadmissible on a particular point, the party advancing the point need not necessarily lose it in the summary judgment proceeding, depending on whether the point is adequately made by evidence elsewhere in the record.

PRINCIPLE IV-1 Expert economic opinion evidence should be considered in deciding a motion for summary judgment only if the evidence meets the standards for admissibility at trial.

COMMENT

As an application of the general rule that only admissible evidence may be considered in deciding a summary judgment motion, the trial court has a duty to assess the admissibility of expert evidence under Rule 702.¹⁰ The admissibility of expert testimony is governed by the same rule at the summary judgment stage as it is at trial.¹¹ The burden of laying the proper foundation for the admission of expert testimony is on the party offering the testimony, and admissibility under Rule 702 must be shown by a preponderance of the evidence.¹²

10. See, e.g., *Raskin v. Wyatt Co.*, 125 F.3d 55, 66 (2d Cir. 1997). For cases applying *Daubert* at the summary judgment stage, see, e.g., *Peitzmeier v. Hennessy Indus., Inc.*, 97 F.3d 293, 296-97 (8th Cir. 1996); *Rosen v. Ciba-Geigy Corp.*, 78 F.3d 316 (7th Cir. 1996); *Cacciola v. Selco Balers, Inc.*, 127 F. Supp.2d 175, 180 (E.D.N.Y. 2001).

11. See, e.g., *Raskin v. Wyatt Co.*, 125 F.3d 55, 66 (2d Cir. 1997); *First United Financial Corp. v. United States Fidelity & Guaranty Co.*, 96 F.3d 135, 136-37 (5th Cir. 1996) (per curiam); *Lavespere v. Niagara Mach. & Tool Works, Inc.*, 910 F.2d 167, 175-76 (5th Cir. 1990); *O'Neil v. JC Penny Life Ins. Co.*, No. CV-97-7467 (CPS), 1998 WL 661513 (E.D.N.Y. Aug. 6, 1998).

12. See, e.g., *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 593 n.10; *Wills v. Amerada Hess Corp.*, 379 F.3d 32, 47 n.9 (2d Cir. 2004); *Hall v. United Ins. Co. of Am.*, 367 F.3d 1255, 1261 (11th Cir. 2004); *Lauzon v. Senco Products, Inc.*, 270 F.3d 681, 686 (8th Cir. 2001); *Meister v. Medical Engineering Corp.*, 267 F.3d 1123, 1128 n.9 (D.C. Cir. 2001); *Cooper v. Smith and Nephew, Inc.*, 259 F.3d 194, 199 (4th Cir. 2001); *Nelson v. Tenn. Gas Pipeline Co.*, 243 F.3d 244, 251 (6th Cir. 2001); *Oddi v. Ford Motor Co.*, 234 F.3d 136, 144 (3d Cir. 2000); *Allison v. McGhan Med. Corp.*, 184 F.3d 1300, 1306 (11th Cir. 1999); *United States v. Griffith*, 118 F.3d 318, 321 (5th Cir. 1997).

Some courts have taken the view that difficult *Daubert* questions, especially when the supporting facts are complex, should be left for trial and that the challenged testimony should be admitted for the limited purpose of deciding the summary judgment motion.¹³ The primary concern expressed by these courts is affording the proponent of the evidence adequate opportunity to defend its admissibility before excluding it.¹⁴ This procedure is open to question because Rule 56 provides that disposition of summary judgment motions is to be made on the basis of admissible evidence, and nothing in the language of the rule or in the cases decided by the Supreme Court indicates that there is an exception when the *Daubert* challenges are complex or difficult.

On the other hand, in the interests of judicial economy and conserving the time and resources of the parties, if the court does decide admissibility of expert testimony at the summary judgment stage, there is no need for the court to revisit the issue in any later stage of the proceedings, including trial, absent a convincing showing of changed circumstances by the party seeking to reopen the matter.

PRINCIPLE IV-2 **If reasonably possible, questions of the admissibility of expert economic evidence should be raised and decided prior to the parties' submission of their substantive memoranda in the summary judgment proceeding.**

COMMENT

Since expert economic opinion evidence should be considered in deciding a motion for summary judgment only if it meets the standards for admissibility at trial, the court should ordinarily determine whether the proffered expert evidence is admissible in time for the parties to know what expert economic testimony is useable-or not useable-prior to the submission of their substantive memoranda on a summary judgment motion. Contrary to the practice of courts that have decided questions of the admissibility of expert opinion evidence in the course of a summary judgment motion, or deferred them until trial, this Principle recommends that the court entertain and decide Rule 104(a) challenges prior to the summary judgment submissions, if reasonably possible.

In the summary judgment context, challenges to the admissibility of an opponent's expert testimony typically arise in the substantive papers on the summary judgment motion itself. In antitrust cases, defendants, for example, often move for summary judgment in part on the ground that the plaintiff's expert testimony as revealed in the expert's Rule 26(a)(2) report or in the expert's deposition is inadmissible in whole or in part, and that in the absence of the challenged testimony the plaintiff cannot make out a *prima facie* case. This procedure almost always leads to a decision on the admissibility of the challenged testimony as part of the disposition of the summary judgment motion. Occasionally, a party will file a separate Rule 104(a) motion to prohibit the admission into the summary judgment record of some or all of its opponent's expert testimony, but even here the tendency is for courts to decide the admissibility challenge at the same time as the disposition of the summary judgment motion.

A variety of problems can arise when courts decide admissibility questions simultaneously with the disposition of a motion for summary judgment. If the parties do not know whether the evidentiary challenge will be sustained by the court, they must make their substantive arguments in the alternative. In antitrust cases, where multiple strains of expert evidence frequently are proffered on numerous aspects of the case, and where the admissibility of this evidence cannot be predicted with confidence by the parties, the result may be highly complex briefs with various lines of logic depending on whether certain expert evidence is admissible or not. To avoid these problems, the judge in an early Rule 16 conference should discuss with counsel their intentions to predicate any summary judgment motion or opposition on expert economic opinion evidence, as well as their expectations about challenging the admissibility of such evidence that may be proffered

13. See, e.g., *Cortes-Irizarry v. Corporacion Insular de Seguros*, 111 F.3d 184, 188 (1st Cir. 1997); *Alcan Aluminum Corp. v. BASF Corp.*, 133 F. Supp.2d 482, 493 (N.D. Tex. 2001); *Granos Nacionales, S.A. v. N. Cent. Commodities*, No. A2-96-145, 1998 WL 1776579, at *4 (D.N.D. Sept. 21, 1998).

14. See, e.g., *Cortes-Irizarry v. Corporacion Insular de Seguros*, 111 F.3d 184, 188 (1st Cir. 1997); *Alcan Aluminum Corp. v. BASF Corp.*, 133 F. Supp.2d 482, 493 (N.D. Tex. 2001). See generally *Weisgram v. Marley Co.*, 528 U.S. 440 (2000).

by the opposing side. The court may then be able to fashion a schedule that permits an admissibility determination before the parties must file their substantive memoranda on the summary judgment motion.¹⁵

In addition to relieving a great deal of confusion in the substantive arguments, deciding admissibility questions separately from the summary judgment proceeding provides a better basis for determining questions of admissibility and eliminates any question that the court provided sufficient process to a party in defending its evidentiary submissions.¹⁶

Of course, as noted previously, once the court rules on the admissibility of expert testimony, the court should not permit the issue to be raised again in later proceedings or trial without a compelling showing of changed circumstances by the party asking for reconsideration.

Finally, separating questions of the admissibility of expert evidence from the merits of the summary judgment motion facilitates review under the proper appellate standard. The admissibility of expert evidence into the summary judgment record is reviewed for abuse of discretion, while the grant or denial of the summary judgment motion is reviewed *de novo*. See, e.g., *Kirstein v. Parks Corp.*, 159 F.3d 1065, 1067 (7th Cir. 1998). A failure by the trial court to distinguish between admissibility and disposition can lead to unnecessary confusion on appeal.

PRINCIPLE IV-3 Questions as to the admissibility of expert testimony must be decided in accordance with Rule 702 and with sufficient opportunity for the proponent of the evidence to be heard.

COMMENT

Under Rule 702, expert testimony is admissible if (1) the proffered testimony will assist the trier of fact to understand the evidence or to determine a fact in issue; (2) the witness is qualified to give the testimony by virtue of knowledge, skill, experience, training, or education; (3) the testimony is based upon sufficient facts or data; (4) the testimony is the product of reliable principles and methods; and (5) the witness has applied the principles and methods reliably to the facts of the case. Fed. R. Evid. 702; see *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. at 592. The admissibility inquiry is necessarily factually intensive, and a sound basis is required on which to make an admissibility determination. The Supreme Court has afforded trial courts great latitude in determining procedures for testing the admissibility of proffered expert testimony in light of the facts and circumstances of the case. *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 152 (1999). Whatever procedure is used, a key requirement is that the court ensure that the proponent of the testimony has an adequate opportunity to defend its admissibility before the evidence is excluded. See, e.g., *Group Health Plan, Inc. v. Philip Morris USA, Inc.*, 344 F.3d 753, 761 n.3 (8th Cir. 2003); *Nelson v. Tennessee Gas Pipeline Co.*, 243 F.3d 244, 249 & n.3 (6th Cir. 2001); *Padillas v. Stork-Gamco*, 186 F.3d 412, 417-18 (3d Cir. 1999); *Cortes-Irizarry v. Corporacion Insular de Seguros*, 111 F.3d 184, 188 & n.3 (1st Cir. 1997); *In re Paoli R.R. Yard PCB Litig.*, 35 F.3d 717, 739 (3d Cir. 1994) (“Given the ‘liberal thrust’ of the federal rules it is particularly important that the side trying to defend the admission of evidence be given an adequate chance to do so.”) (citation omitted).¹⁷

15. See Fed. R. Civ. P. 16(c)(4)-(5). See also *General Elec. Co. v. Joiner*, 522 U.S. 136, 149 (1997) (Breyer, J., concurring) (urging greater use of Rule 16 conference authority to resolve or narrow issues pertaining to expert testimony).

16. See, e.g., *In re Paoli R.R. Yard PCB Litig.*, 916 F.2d 829, 854-55 (3d Cir. 1990) (party proffering expert evidence in summary judgment proceeding entitled to notice of the deficiency and an opportunity to cure).

17. If no objection is raised to the testimony, there is no requirement that the district court conduct *sua sponte* an in-depth *Daubert* analysis and make explicit findings on the record as to the elements of Rule 702. See *United States v. Locascio*, 6 F.3d 924 (2d Cir. 1993) (“We decline, however, to shackle the district court with a mandatory and explicit trustworthiness analysis. . . . In fact, we assume that the district court consistently and continually performed a trustworthiness analysis *sub silentio* of all evidence introduced at trial. We will not, however, circumscribe this discretion by burdening the court with the necessity of making an explicit determination for all expert testimony.”); *accord Hout v. Hout*, 57 F.3d 1, 5 (1st Cir. 1995). The standard of review for the admission of expert testimony in the absence of a timely objection is plain error. See, e.g., *McKenzie v. Bennon*, 388 F.3d 1342, 1350 (10th Cir. 2004); *Mascanti v. Becker*, 237 F.3d 1223, 1232 (10th Cir. 2001); *Goebel v. Denver and Rio Grande Western R.R. Co.*, 215 F.3d 1083, 1088, n.2 (10th Cir. 2000); *Scott v. Ross*, 140 F.3d 1275, 1285 (9th Cir. 1998); *Christopher v. Cutter Laboratories*, 53 F.3d 1184, 1191 (11th Cir. 1995); *McKnight v. Johnson Controls, Inc.*, 36 F.3d 1396, 1406-07 (8th Cir. 1994). In civil cases, the plain error exception is limited to errors that significantly affect “the fairness, integrity or public reputation of judicial proceedings.” *Pobys v. Trans-Colorado Airlines, Inc.*, 941 F.2d 1404, 1408 (10th Cir. 1991).

The court should require the proponent of the evidence to discharge its burden of proof by showing by a preponderance of the evidence that the testimony is admissible before relying upon it in deciding the summary judgment motion. It is an abuse of discretion for the court to reject evidence that would make a difference in the disposition of the summary judgment motion without providing the proponent of the evidence an opportunity to make the case for admissibility. The failure of the proponent of the evidence to make a prima facie showing of admissibility is grounds for excluding the expert testimony, even if the opposing party does not submit its own expert testimony opposing admissibility. See *Brooks v. Outboard Marine Corp.*, 234 F.3d 89, 91-92 (2d Cir. 2000) (*per curiam*) (sustaining exclusion of expert testimony in the absence of opposing expert testimony from challenger).

Generally there is no obligation for the court to question *sua sponte* the Rule 702 admissibility of proffered expert evidence so long as the record makes a *prima facie* case of admissibility, and a party's failure to object to the admissibility of the testimony may waive the objection at least for the purposes of summary judgment. See, e.g., *Club Car, Inc. v. Club Car (Quebec) Import, Inc.*, 362 F.3d 775, 780 (11th Cir. 2004) ("A Daubert objection not raised before trial may be rejected as untimely. But a trial court has broad discretion in determining how to perform its gatekeeper function, and nothing prohibits it from hearing a *Daubert* motion during trial.") (citation omitted); *Questar Pipeline Co. v. Grynberg*, 201 F.3d 1277, 1289-90 (10th Cir. 2000) ("A party may waive the right to object to evidence on *Kumho/Daubert* grounds by failing to make its objection in a timely manner"); *Lithuanian Commerce Corp. v. Sara Lee Hosiery*, 202 F. Supp.2d 371, 376 (D.N.J. 2002).

If a proper objection is raised to the admissibility of expert testimony, the court is required to make a determination on the record. In *Kumho Tire Co. v. Carmichael*, 526 U.S. 137 (1999), the Supreme Court instructed that "where [expert] testimony's factual basis, data, principles, methods, or their application are called sufficiently into question . . . the trial judge must determine whether the testimony has 'a reliable basis in the knowledge and experience of [the relevant] discipline.'" *Id.* at 149 (quoting *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. at 592); see *Mac senti v. Becker*, 237 F.3d 1223, 1232 (10th Cir. 2001); *United States v. Jasin*, 292 F. Supp.2d 670, 681 (E.D. Pa. 2003); *De Puy Inc. v. Biomedical Eng'g Trust*, 216 F. Supp.2d 358, 374-75 (D.N.J. 2001). Upon a proper challenge the trial court must make some type of admissibility determination. "[T]rial court discretion in choosing the manner of testing expert reliability [] is not discretion to abandon the gatekeeping function." *Kumho*, 526 U.S. at 158-59 (Scalia, J., concurring); accord *United States v. Velarde*, 214 F.3d 1204, 1209-11 (10th Cir. 2000).

Although neither side is entitled to an evidentiary hearing as a matter of right,¹⁸ the court may conduct a *voir dire* hearing *in limine* when an opposing party raises a material admissibility challenge before trial. This practice can be extended to the summary judgment stage, especially when the challenge concerns the factual dimensions of the expert evidence.¹⁹ Some appellate courts have criticized trial courts for failing to conduct an *in limine* hearing in the summary judgment context when the admissibility of expert evidence material to a summary judgment proceeding is clearly in question and the factual record for determining admissibility is lacking.²⁰ At the very least, if the court

18. See, e.g., *Group Health Plan, Inc. v. Philip Morris USA, Inc.*, 344 F.3d 753, 761 n.3 (8th Cir. 2003); *Nelson v. Tennessee Gas Pipeline Co.*, 243 F.3d 244, 248-49 (6th Cir. 2001) (holding that district court not required to hold hearing before excluding expert evidence and affirming summary judgment based on exclusion of evidence); *Oddi v. Ford Motor Co.*, 234 F.3d 136, 154-55 (3d Cir. 2000) (affirming summary judgment for defendants, although outcome-determinative evidence was excluded without an *in limine* hearing); see also *United States v. Alatorre*, 222 F.3d 1098, 1104-05 (9th Cir. 2000) (no abuse of discretion in criminal case when district court denied the defendant a separate *Daubert* hearing but permitted the defendant to conduct *voir dire* of the proffered expert at trial). The decision to hold an evidentiary hearing is in the trial court's discretion and is reviewed for abuse of discretion. See, e.g., *In re Hanford Nuclear Reservation Litig.*, 292 F.3d 1124, 1138 (9th Cir. 2002); *Nelson v. Tennessee Gas Pipeline Co.*, 243 F.3d 244, 248-49 (6th Cir. 2001); *Elcock v. Knart Corp.*, 233 F.3d 734, 745 (3d Cir. 2000); *United States v. Nichols*, 169 F.3d 1255, 1262-64 (10th Cir. 1999). See generally *Kumho Tire Co. v. Carmichael*, 526 U.S. at 152 (whether to hold an evidentiary hearing on *Daubert* admissibility within trial court's discretion).

19. See, e.g., *Hauck v. Michelin N. Am., Inc.*, Civ.A.03-F-107 CBS, 2004 WL 2504513, at *2 (D. Col. Sept. 14, 2004) (on defendant's motion to strike expert's opinions accompanied by motion for summary judgment, court heard direct testimony and cross examination of plaintiff's expert, received into evidence articles and information tendered by plaintiff, viewed the physical evidence on which the expert opinion of a defect was rendered, and heard arguments of counsel for all parties on both motions); *Virginia Vermiculite, Ltd. v. W.R. Grace & Co.*, 98 F. Supp.2d 729, 731-32 (W.D. Va. 2000) (where motion to strike filed less than a week before initial summary judgment hearing and was arguably untimely, "it would have been waste of judicial resources not to hold a *Daubert* hearing prior to summary judgment" and the court held a four-day hearing).

20. See *Padillas v. Stork-Garneo*, 186 F.3d 412, 417-18 (3d Cir. 1999) (abuse of discretion not to hold an *in limine* hearing before excluding plaintiff's expert report for lack of adequate explanation of supporting facts and granting summary judgment to the defendant); see *In re Paoli R.R. Yard PCB Litig.*, 916 F.2d 829, 854 n.29a (3d Cir. 1990).

does not permit an *in limine* hearing when requested, the court should provide alternative procedures sufficient to allow the parties to make an adequate record concerning the expert evidence at issue.²¹

PRINCIPLE IV-4 Where reasonable and without prejudice to the opposing party, the court should allow the proponent of expert testimony the opportunity to cure any deficiency preventing the testimony's admission into evidence.

COMMENT

Courts should permit the proponent of expert testimony to cure any deficiency where reasonable in the circumstances. In determining the reasonableness of permitting a cure, the court should consider the nature of the deficiency and the feasibility of the cure; the significance of the evidence to the proponent's case; the proponent's opportunity to develop expert testimony, test theories, and respond to any specific challenges; the amount of time the cure will take; and the burden of the delay of the cure on the opponents. Courts should, and typically do, allow proponents to correct deficiencies that are more technical than substantive in nature, do not completely replace the originally proffered evidence, can be accomplished in a short amount of time, and do not unduly prejudice the opponents. On the other hand, this Principle does not open the door to "do-overs" by the same or different experts where the original evidence was fundamentally flawed, and the opponents—having built their case on the assumption that this was the best evidence available to the proponent—would be substantially prejudiced by having to confront new and presumably significantly different evidence.²²

In *Weisgram v. Marley Co.*, 528 U.S. 440 (2000), the Supreme Court considered the scope of discretion in providing an opportunity for a cure of an expert evidentiary defect where the court of appeals had held that the trial court abused its discretion in admitting expert testimony critical to the plaintiff's product liability case at trial. In affirming the court of appeals's direction that the trial court enter judgment as a matter of law for the manufacturer without any opportunity for a cure, a unanimous Court observed:

Since *Daubert*, moreover, parties relying on expert evidence have had notice of the exacting standards of reliability such evidence must meet. It is implausible to suggest, post *Daubert*, that parties will initially present less than their best expert evidence in the expectation of a second chance should their first try fail. We therefore find unconvincing [plaintiff's] fears that allowing courts of appeals to direct the entry of judgment for defendants will punish plaintiffs who could have shored up their cases by other means had they known their expert testimony would be found inadmissible. In this case, for example, although [plaintiff] was on notice every step of the way that [defendant] was challenging his experts, he made no attempt to add or substitute other evidence.²³

Although *Weisgram* sets the bar high on a right to cure as a matter of law, in the interest of justice the court should consider allowing a party a reasonable opportunity to cure a deficiency in expert testimony when it will not result in undue prejudice to the opposing party.

21. See *Group Health Plan, Inc. v. Philip Morris USA, Inc.*, 344 F.3d 753, 761 n.3 (8th Cir. 2003) (no abuse of discretion in procedure used to exclude expert testimony from summary judgment record where trial court allowed parties to exceed normal page limits in their summary judgment briefs to address evidentiary questions and permitted proponent of testimony to submit written submissions by the expert in question and other experts in support of admissibility); *Nelson v. Tenn. Gas Pipeline Co.*, 243 F.3d 244, 249 (6th Cir. 2001) (no abuse of discretion not to hold evidentiary hearing when the admissibility question was fully briefed by the parties and the opinion below reveals an adequate basis for determining the reliability and validity of the expert's testimony); *Claar v. Burlington N. R.R. Co.*, 29 F.3d 499, 500 (9th Cir. 1994) (noting district court had ordered two rounds of affidavits directing experts to explain the basis of their opinions); *In re Paoli R.R. Yard PCB Litig.*, 916 F.2d 829, 859 (3d Cir. 1990); *McConaghy v. Sequa Corp.*, 294 F. Supp.2d 151, 168 (D.R.I. 2003) ("Any motion for summary judgment on these grounds [inadmissibility of expert testimony] is premature, as it is made before this court has had the opportunity to hold a *Daubert* hearing and consider the admissibility of Plaintiff's proffered expert testimony."); *Colon ex rel. Molina v. BIC USA, Inc.*, 199 F. Supp.2d 53, 70 (S.D.N.Y. 2001) ("Moreover, failure to hold an *in limine* hearing, especially in the context of summary judgment, may be an abuse of discretion when the ruling on admissibility turns on factual issues."); *Heller v. Shaw Indus., Inc.*, 1997 WL 535163 (E.D. Pa. Aug. 18, 1997).

22. See, e.g., *In re TMI Litig.*, 199 F.3d 158, 159 (3d Cir. 1999) (no need for district court to "provide a plaintiff with an open ended and never ending opportunity to meet a *Daubert* challenge until plaintiff 'gets it right'"); *Kirstein v. Parks Corp.*, 159 F.3d 1065, 1068-69 (7th Cir. 1998); *Claar v. Burlington N. R.R. Co.*, 29 F.3d 499, 504 (9th Cir. 1994); *Lippe v. Bainco Corp.*, 249 F. Supp.2d 357, 386 (S.D.N.Y. 2003).

23. 528 U.S. at 455-56 (citations and footnote omitted); *accord Nelson v. Tenn. Gas Pipeline Co.*, 243 F.3d 244, 249-50 (6th Cir. 2001) ("We likewise find that fairness does not require that a plaintiff, whose expert witness testimony has been found inadmissible under *Daubert*, be afforded a second chance to marshal other expert opinions and shore up his case before the court may consider a defendant's motion for summary judgment.").

PRINCIPLE IV-5 For expert opinion testimony to create a genuine issue of material fact warranting denial of a motion for summary judgment, the testimony must sufficiently disclose the basis for the conclusion.

COMMENT

For expert opinion testimony to establish a *prima facie* showing or to create a genuine issue of material fact, it must provide not only the conclusion, but also the basis for the conclusion.²⁴ The weight to be given the conclusion depends on the strength with which the expert's conclusion may be drawn from the basis on which the expert has relied. "Expertise is a rational process and a rational process implies expressed reasons for judgment." *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 627 (1944) (Frankfurter, J., dissenting). See *Petrogradsky Mejdunarodny Kommerchesky Bank v. National City Bank*, 253 N.Y. 23, 25, 170 N.E. 479, 483 (1930) (Cardozo, J.) (an "opinion has a significance proportioned to the sources that sustain it.").

As a result, an unsupported expert conclusion has no probative value and cannot either make a *prima facie* showing or create a triable issue of fact. See, e.g., *Weigel v. Target Stores*, 122 F.3d 461, 468-69 (7th Cir. 1997); *Rebel Oil Co. v. Atlantic Richfield Co.*, 51 F.3d 1421, 1436 (9th Cir. 1995); *Microbix Biosystems Inc. v. Biowhitaker, Inc.*, 172 F. Supp.2d 665, 677 n.22 (D. Md. 2000) ("[E]xpert's 'naked opinions,' though admissible at trial, may not suffice to defeat summary judgment."). In particular, where expert testimony has been admitted into the summary judgment record, but the expert does no more in an affidavit than state an opinion and provide as the basis the review of the pleadings, depositions, documents, and the expert's education, training, and experience, the testimony cannot make a *prima facie* showing or create a genuine issue of fact, since there must be some connection drawn by the expert between the foundation and the conclusion.²⁵

It is not necessary, however, for the proponent of expert testimony in a summary judgment proceeding to establish by a preponderance of the evidence that the expert's conclusion is correct. The sufficiency question on summary judgment is only whether the expert testimony has sufficient weight, taken together with the other evidence in the summary judgment record, to establish a *prima facie* showing if uncontested or to create a genuine issue of fact, as the case may be.

Nor is it necessary in a summary judgment proceeding for the expert to provide a detailed "roadmap" explicating the logic of connecting each conclusion to the stated basis of each opinion, provide all the underlying data, or answer all challenges in order for the opinion to be given weight in the proceeding.²⁶ Rule 705 of the Federal Rules of Evidence allows experts to testify in terms of opinion or inference without first testifying to the underlying facts or data, provided that the expert provides some reasons for drawing the conclusions. Fed. R. Evid. 705 ("The expert may testify in terms of opinion or inference and give reasons therefor without first testifying to the underlying facts or data, unless the court requires otherwise. The expert may in any event be required to disclose the underlying facts or data on cross-examination."). Although such detailed explanation may be necessary at trial to give the conclusion persuasive force, it is sufficient in a summary judgment proceeding that the expert states the conclusion, the basis, and the general connection between the two. See *Hayes v. Douglas Dynamics, Inc.*, 8 F.3d 88, 92 (1st Cir. 1993) ("Although an expert affidavit need not include details about all of the raw data used to produce a conclusion, or about scientific or

24. See also Fed. R. Civ. P. 56(e) (requiring affidavits adduced by non-moving party to "set forth specific facts showing that there is a genuine issue for trial"); *Vollmert v. Wisconsin Dep't of Transp.*, 197 F.3d 293, 298 (7th Cir. 1999); *M&M Medical Supplies & Serv., Inc. v. Pleasant Valley Hosp., Inc.*, 981 F.2d 160, 165 (4th Cir. 1993) (*en banc*) (noting that Rule 705, which allows an expert to give her opinion without prior disclosure of the underlying facts, does not alter the requirement of Rule 56(e) that affidavits submitted in summary judgment proceedings set forth specific facts); *Mid-State Fertilizer Co. v. Exchange Nat'l Bank of Chicago*, 877 F.2d 1333, 1339 (7th Cir. 1989) (expert affidavits "shall 'set forth facts' and by implication in the case of experts (who are not 'fact witnesses') a process of reasoning beginning from a firm foundation.").

25. See, e.g., *Hayes v. Douglas Dynamics, Inc.*, 8 F.3d 88, 92-94 (1st Cir. 1993); *Mid-State Fertilizer Co. v. Exchange Nat'l Bank of Chicago*, 877 F.2d 1333, 1338-39 (7th Cir. 1989). Some pre-1993 cases indicated that Rule 56(e) required no more of an expert affidavit than an affiant competent to give an expert opinion and a statement of the factual basis for the opinion, even if the reasoning upon which the opinion was based was not stated. See, e.g., *Ambrosini v. Labarraque*, 966 F.2d 1464, 1470-71 (D.C. Cir. 1992); *Bulbhus v. Rexall Corp.*, 789 F.2d 1315, 1318 (9th Cir. 1985). But the increased emphasis on the expert's reasoning process as part of the admissibility inquiry following the Supreme Court's decision in *Daubert* in 1993 undoubtedly and properly drove Rule 56(e) analysis in the direction of *Mid-State/Hayes* and away from *Ambrosini/Bulbhus* approach.

26. See *Vollmert v. Wisconsin Dep't of Transportation*, 197 F.3d 293, 301 (7th Cir. 1999); *M&M Medical Supplies & Serv., Inc. v. Pleasant Valley Hosp., Inc.*, 981 F.2d 160 (4th Cir. 1993) (*en banc*) ("[A]n affidavit that states facts on which the expert bases an opinion satisfies Fed. R. Civ. P. 56(e) even though the expert does not attach the data supporting the facts. If need be, the court, acting pursuant to Fed. R. Civ. P. 56(e) and Fed. R. Evid. 705, can require the expert to furnish the supporting data.").

other specialized input which might be confusing to a lay person, it must at least include the factual basis and the process of reasoning which makes the conclusion viable in order to defeat a motion for summary judgment.”); *accord Williams v. Ford Motor Co.*, 187 F.3d 533, 544 (6th Cir. 1999). This is enough to permit the opposite party, if it chooses, to develop its own evidence—through depositions or opposing testimony—that the conclusion does not follow from the basis or that the basis is in some way fundamentally flawed. See *M&M Medical Supplies & Serv., Inc. v. Pleasant Valley Hosp., Inc.*, 981 F.2d 160, 165 (4th Cir. 1993) (en banc) (discovery may be used to elicit additional information about the facts underlying an expert’s conclusions).

PRINCIPLE IV-6 When an expert’s opinion is not supported by sufficient facts; depends on an assumption clearly contradicted by the record or an assumption unsupported by fact or accepted economic theory; or utilizes an economically untenable inference, the opinion cannot support a judicial finding of fact and hence cannot be a basis for deciding summary judgment.

COMMENT

Expert testimony is not a talisman against summary judgment. *Raskin v. Wyatt Co.*, 125 F.3d 55, 66 (2d Cir. 1997); see *Viterbo v. Dow Chem. Co.*, 826 F.2d 420, 422 (5th Cir. 1987) (although the Federal Rules of Evidence “expanded the acceptable bases for expert opinion[,] . . . this expansion does not extend to make summary judgment impossible whenever a party has produced an expert to support its position.”). Expert testimony, even when squarely on point, may be insufficient as a basis for establishing a *prima facie* showing or creating a genuine issue of fact for one of three reasons: (1) the testimony merely provides a suggestion of the finding; (2) the expert’s conclusion depends on an assumption clearly contradicted by the record, or an assumption unsupported by fact or accepted economic theory; or (3) the expert’s conclusion utilizes an economically untenable inference.

The usual rule in summary judgment proceedings is that courts may not rely on the “mere existence of a scintilla of evidence.”²⁷ If evidence is merely colorable, or is not significantly probative, that evidence does not create a genuine issue of material fact and summary judgment is appropriately granted. *Anderson v. Liberty Lobby*, 477 U.S. at 249-50; *accord Flip Side Productions, Inc. v. Jam Productions, Ltd.*, 843 F.2d 1024, 1032 (7th Cir. 1988). This rule applies to expert testimony just as it does to other types of evidence.²⁸

An expert opinion that depends on an assumption clearly contradicted by the record or an assumption unsupported by fact or accepted economic theory cannot support a judicial finding of fact and hence cannot be a basis for deciding summary judgment. See, e.g., *Rebel Oil Co. v. Atlantic Richfield Co.*, 51 F.3d 1421, 1436 (9th Cir. 1995).

Finally, although summary judgment is inappropriate “where there is no dispute as to the evidentiary facts but only as to the conclusions to be drawn therefrom,” *M&M Medical Supplies & Serv., Inc. v. Pleasant Valley Hosp., Inc.*, 981 F.2d 160, 163 (4th Cir. 1993) (en banc) (citations omitted), an expert’s conclusions drawn from undisputed facts must be reasonable. The rule that the court must draw all inferences from the evidence in the non-moving party’s favor, *Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 255, only applies to reasonable inferences. The court may not make

27. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 252; see *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. at 596 (noting that a court may grant summary judgment under Rule 56 after properly admitting expert testimony under Rule 702 where “the scintilla of evidence presented supporting a position is insufficient to allow a reasonable juror to conclude that the position more likely than not is true”).

28. *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. at 596; *On-Line Tech. v. Bodenseewerk Perkin-Elmer*, 386 F.3d 1133, 1144 (Fed. Cir. 2004) (conclusory assertions by expert witnesses are not sufficient to avoid summary judgment); *Thomas v. Christ Hosp. & Med. Ctr.*, 328 F.3d 890, (7th Cir. 2003) (“conclusory assertions, unsupported by specific facts made in affidavits opposing a motion for summary judgment, are not sufficient to defeat a motion for summary judgment”); *Mathiesen v. Banc One Mortgage Corp.*, 173 F.3d 1242, 1247 (10th Cir. 1999) (“The testimony of an expert can be rejected on summary judgment if it is conclusory and thus fails to raise a genuine issue of material fact.”); *Rosen v. Ciba-Geigy Corp.*, 78 F.3d 316 (7th Cir. 1996) (affirming grant of summary judgment on basis that plaintiff’s expert witness’ testimony was conclusory and did not satisfy *Daubert* test for admissibility of scientific evidence); *Hayes v. Douglas Dynamics, Inc.*, 8 F.3d 88, 92 (1st Cir. 1993) (“Although expert testimony may be more inferential than that of fact witnesses, in order to defeat a motion for summary judgment an expert opinion must be more than a conclusory assertion about ultimate legal issues.”). See generally *Mid-State Fertilizer Co. v. Exchange Nat’l Bank of Chicago*, 877 F.2d 1333, 1340 (7th Cir. 1989) (“Judges should not be buffaloes by unreasoned expert opinions.”).

unreasonable inferences in order to find a genuine issue of material fact, and all inferences must be reasonable in light of the competing inferences. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. at 588. Moreover, certain inferences from circumstantial evidence may be prohibited as a matter of substantive law. *See, e.g., Matsushita Electric Indus. Co. v. Zenith Radio Corp.*, 475 U.S. at 588 (conduct that is “as consistent with permissible [activity] as with illegal conspiracy does not, standing alone, support an inference of antitrust conspiracy.”).

PRINCIPLE IV-7 **The rule that courts cannot assess the credibility or weight to be accorded admitted evidence applies as equally to expert testimony as it does to normal fact testimony.**

COMMENT

Daubert's gatekeeper role should not invade the province of the jury to decide issues of credibility and to determine the weight that should be accorded evidence. *See, e.g., Arkwright Mut. Ins. Co. v. Gwinner Oil, Inc.*, 125 F.3d 1176, 1183 (8th Cir. 1997). Credibility determinations, the weighing of evidence, and the drawing of legitimate inferences from the facts are functions for the trier of fact, not the judge in a dispositive pretrial motion. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. at 249 (“[A]t the summary judgment stage the judge’s function is not himself to weigh the evidence and determine the truth of the matter but to determine whether there is a genuine issue for trial.”).

PRINCIPLE IV-8 **Expert testimony is admissible when it satisfies the requirements of Rule 702 even if it conflicts with other admissible expert testimony. Conflicts in admissible expert testimony, like conflicts in evidence generally, must be resolved by the trier of fact and not on summary judgment.**

COMMENT

It is not unusual for the opposing parties in litigation to proffer conflicting expert testimony. Expert testimony that satisfies the requirements of Rule 702 is admissible even if it conflicts with other admissible evidence, including other expert testimony. Assuming that each side’s record evidence is sufficient standing alone to make a *prima facie* showing of the fact in question, conflicts in expert testimony must be resolved by the trier of fact and not on summary judgment. *See, e.g., Goldman v. Standard Ins. Co.*, 341 F.3d 1023, 1035 (9th Cir. 2003); *TFWS, Inc. v. Schaefer*, 325 F.3d 234, 241-43 (4th Cir. 2003); *Leggett & Platt, Inc. v. Hickory Springs Mfg. Co.*, 285 F.3d 1353, 1362 (Fed. Cir. 2002); *Klein v. Tabatchnick*, 610 F.2d 1043, 1048 (2d Cir. 1979); *ID Sec. Sys. Canada, Inc. v. Checkpoint Sys., Inc.*, 198 F. Supp.2d 598, 605 (E.D. Pa. 2002); *Telecomm Technical Serv., Inc. v. Siemens Rolm Communications, Inc.*, 66 F. Supp.2d 1306, (N.D. Ga. 1998); *Grismer v. The Upjohn Co.*, 1995 WL 390053, at * 4 (N.D. Ill. June 26, 1995).

PRINCIPLE IV-9 **Expert testimony, while typically useful as a means for efficiently organizing and persuasively advancing the evidence, is rarely if ever strictly necessary to establishing a prima facie case or creating a material issue of fact.**

COMMENT

The Supreme Court has held that expert evidence is not essential “if all the primary facts can be accurately and intelligibly described to the jury, and if they, as men [sic] of common understanding, are as capable of comprehending the primary facts and of drawing correct conclusions from them as are witnesses possessed of special or peculiar training, experience, or observation in respect of the subject under investigation.” *Salem v. United States Lines*, 370 U.S. 31, 35 (1962) (quoting *United States Smelting Co. v. Parry*, 166 F. 407, 415 (8th Cir. 1909)); accord *Padillas v. Stork-Gamco*, 186 F.3d 412, 415-16 (3d Cir. 1999); *ID Sec. Systems Canada, Inc. v. Checkpoint Sys., Inc.*, 198 F. Supp.2d 598, 612 (E.D. Pa. 2002). When expert testimony on a material fact is rejected as inadmissible or insufficient standing alone, the proponent of the testimony does not necessarily lose the point, since the question is whether on the record as a whole

the proponent adduced enough admissible evidence—from whatever sources—to create a genuine issue of material fact with respect to the issue. See, e.g., *Daubert v. Merrell Dow Pharm., Inc.*, 43 F.3d 1311, 1315 (9th Cir. 1995), on remand from 509 U.S. 579 (1993).

PRINCIPLE IV-10 A trial court’s determination of the admissibility of expert testimony under Rule 403 or 702 into the summary judgment record is reviewed under the abuse of discretion standard.

COMMENT

The grant or denial of a motion for summary judgment is reviewed de novo. *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. at 465 n.10; *United States v. Diebold, Inc.*, 369 U.S. 654, 655 (1962). A trial court’s determination of the admissibility of expert testimony under Rule 403 or Rule 702 into the summary judgment record, however, is reviewed for abuse of discretion. *Kumbo Tire Co. v. Carmichael*, 526 U.S. at 142; *General Elec. Co. v. Joiner*, 522 U.S. 136, 142-43 (1997). Abuse of discretion is the proper standard even if the trial court conducted no in limine hearing. *Group Health Plan, Inc. v. Philip Morris USA, Inc.*, 344 F.3d 753, 761 n.3 (8th Cir. 2003). An appellate court should not reverse a district court’s admissibility determination unless it is “manifestly erroneous” and prejudicial.²⁹

Significantly for summary judgment proceedings, the admission of evidence in a bench trial is rarely grounds for reversal, for the trial judge is presumed to be able to exclude improper inferences from the decisional analysis. See, e.g., *Schultz v. Butcher*, 24 F.3d 626, 631-32 (4th Cir. 1994) (“For a bench trial, we are confident that the district court can hear relevant evidence, weigh its probative value and reject any improper inferences.”). The exception, of course, is when the trial judge could have based the decision only on evidence that was inadmissible.

PRINCIPLE IV-11 The same standard of review applies regardless of whether the trial court has allowed or disallowed the proffered expert testimony or whether the ruling is determinative of the outcome of the summary judgment motion.

COMMENT

In *General Elec. Co. v. Joiner*, 522 U.S. 136 (1997), the Supreme Court made clear that, even where the exclusion of proffered expert testimony is determinative of the outcome of a summary judgment motion, the usual standards for the review of admissibility determinations apply. The *Joiner* Court held that a court of appeals may not “categorically distinguish between rulings allowing expert testimony and rulings disallowing it.” 522 U.S. at 143 (reversing 78 F.3d 524 (11th Cir. 1996)). The Court reversed the Eleventh Circuit for applying an admittedly more stringent standard of review to the exclusion of the plaintiff’s proffered expert evidence, even though the evidence was “outcome determinative” in the sense that it was critical to creating a genuine issue of material fact and so avoiding summary judgment for the defendant. 522 U.S. at 142-43.

29. See, e.g., *Club Car, Inc. v. Club Car (Quebec) Import, Inc.*, 362 F.3d 775 (11th Cir. 2004) (requiring “substantial prejudicial effect”); *Orr v. Bank of Am., NT & SA*, 285 F.3d 764, 773 (9th Cir. 2002) (citing *General Elec. Co. v. Joiner*, 522 U.S. 136, 142 (1997)); *Wilson v. Merrill Dow Pharm., Inc.*, 160 F.3d 625, 629-30 (10th Cir. 1998) (same); *Hayter v. City of Mount Vernon*, 154 F.3d 269, 273-74 (5th Cir. 1998); *Raskin v. Wyatt Co.*, 125 F.3d 55, 66 (2d Cir. 1997) (“manifest error”). See generally *Salem v. United States Lines Co.*, 370 U.S. 31, 35 (1962) (district judge’s admission or exclusion of evidence “is to be sustained unless manifestly erroneous”); *Group Health Plan, Inc. v. Philip Morris USA, Inc.*, 344 F.3d 753, 760 (8th Cir. 2003) (“Even if we believe that we might have come to a different conclusion as an original matter from the one that the district court did, we can reverse only if “we are convinced that the District Court made a clear error of judgment on the basis of the record before it.”) (citation omitted); *TFWS, Inc. v. Schaefer*, 325 F.3d 234, 240 (4th Cir. 2003) (giving “great deference” to a district court’s decision to admit or exclude expert testimony under *Daubert*); *Christophersen v. Allied Signal Corp.*, 939 F.2d 1106, 1109 (5th Cir. 1991) (*en banc*) (*per curiam*).

CHAPTER V.
ECONOMIC EVIDENCE AND TESTIMONY IN MOTIONS
IN LIMINE AND AT TRIAL

INTRODUCTION

As earlier chapters indicate, economic testimony is useful at virtually all stages of an antitrust case and for various purposes. Because *Daubert* challenges can and have occurred through motions *in limine* and after trial has begun (as late as just before plaintiff rests), there is a continuing need for the parties to make sure that economic evidence, which typically will come in through expert testimony, meets the requirements of Federal Rule of Evidence 702, addressed in Chapter I. Economic testimony also is vulnerable to post-trial attack. See *Concord Boat Corp. v. Brunswick Corp.*, 207 F.3d 1039, 1056-57 (8th Cir. 2000) (holding that economic expert's testimony should have been excluded because it failed to incorporate all aspects of the economic reality of the relevant market and because it failed to separate lawful from unlawful conduct).

In addition, however, parties approaching trial also must be sure that any economic evidence can survive challenges under Federal Rules of Evidence 103, 104, 401, 402, 403, 703, and 704. Courts employ different approaches to determining what economic evidence reaches the jury, ranging from permitting experts to testify before making a reliability determination, see *Lantec, Inc. v. Novell, Inc.*, 306 F.3d 1003, 1025-26 (10th Cir. 2002) (affirming district court's exclusion of expert testimony regarding relevant market after expert testified at trial), to holding extensive evidentiary hearings to determine admissibility before trial. See *In re Polypropylene Carpet Antitrust Litig.*, 93 F. Supp. 2d 1348 (N.D. Ga. 2000) (determining not to exclude plaintiffs' experts after four-day evidentiary hearing). The court also may, on its own motion or on the motion of any party, appoint expert witnesses agreed upon by the parties or of its own selection, as set forth in Federal Rule of Evidence 706. See *In re High Fructose Corn Syrup Antitrust Litig.*, 295 F.3d 651, 665 (7th Cir. 2002) (recommending that district court "use the power that Rule 706 of the Federal Rules of Evidence expressly confers upon him to appoint his own expert witness, rather than leave himself and the jury completely at the mercy of the parties' warring experts."). Given the increasing complexity of economic evidence being produced in antitrust cases and the numerous means available to challenge economic evidence, it is necessary for courts to implement strategies to promote fair and clear presentation of economic evidence at trial while preventing unnecessary delay in resolving the case and increasing the parties' costs. As prior chapters have stressed, case management, including scheduling and pre-trial orders, should address and provide for not only the timing of expert disclosures and reports, but also the procedure for filing, responding to, and ruling on motions to exclude expert testimony, as well as how such motions will be coordinated with proceedings involving dispositive motions.

PRINCIPLE V-1

Case management orders should generally include a time for the parties to confer with the court regarding the issues for which economic testimony will be necessary at trial.

COMMENT

To facilitate efficient and coherent presentation of economic evidence at trial, the parties should confer with the court to determine which specific economic issues are in dispute and which may be presented by stipulation. Generally, the parties should be able to resolve issues regarding the admissibility of expert economic testimony via *Daubert* motions well in advance of trial, thus obviating the need for motions *in limine* addressing the issue.

PRINCIPLE V-2 **Timely *Daubert* motions should generally render unnecessary motions in limine directed at the same expert testimony, but do not preclude objections and motions to strike as the evidence is presented at trial.**

COMMENT

Adequate procedures, in particular *Daubert* motions, exist and should be used to test the admissibility of expert testimony well in advance of trial. By the time the parties reach trial, they should know which experts will be allowed to testify and about what. Best practice counsels deciding issues of admissibility of economic evidence well before trial to the extent reasonably possible.

When challenges to economic testimony have occurred earlier in a case, such as in conjunction with a motion for summary judgment or a *Daubert* challenge, a party whose expert survived such a challenge should generally be permitted to present the economic testimony. Opposing parties should use cross-examination to show any alleged infirmities in the proposed testimony. See, e.g., *In re Industrial Silicon Antitrust Litig.*, No. 95-2104, 1998 WL 1031507, at *4 (W.D. Pa. Oct. 13, 1998) (permitting expert to testify at trial and concluding that “should the jury find that defendants conspired to fix prices, [the expert’s] proffered testimony will assist the jury in determining the amount of damages, if any that plaintiffs incurred as a result of that conspiracy. Thus, if defendants wish to challenge [the] expert testimony, they must do so by vigorous cross-examination and by proffering their own expert to present contrary evidence.”).

The parties remain free to make objections and motions to strike with respect to expert testimony that that fails to meet the requirements of Rule 702 or any other Federal Rule of Evidence. *In Lantec, Inc. v. Novell, Inc.*, Case No. 2:95-CV-97-ST, slip op. (D. Utah Feb. 13, 2001), for example, the court had denied a *Daubert* challenge to plaintiffs’ expert brought the day before the expert was to testify at trial. After the expert testified before the jury, however, the court determined that the testimony should be excluded because it lacked foundation and was unreliable. Without the expert’s testimony, plaintiffs were left with insufficient evidence of the relevant market, market power, power to control prices, and probability of success of monopolization, and lost the case when defendant moved for judgment as a matter of law at the close of plaintiffs’ case. *Lantec*, 146 F. Supp. 2d 1140 (D. Utah 2001), *aff’d*, 306 F.3d 1003 (10th Cir. 2002). Similarly, *in In re Brand Name Prescription Drugs Antitrust Litig.*, 1999-1 Trade Cas. (CCH) Paragraph 72,446 (N.D. Ill. Jan. 19, 1999), the court denied defendants’ pretrial requests to exclude the testimony of plaintiffs’ economic expert, but found the testimony unreliable when defendants raised the issue again on their motion for judgment as a matter of law at the end of plaintiffs’ case.

PRINCIPLE V-3 **Courts analyzing challenges to expert economic testimony through motions in limine or during trial should take care not to usurp the jury’s function as fact finder and should require parties challenging economic evidence to present more than contrary conclusions or speculation.**

COMMENT

Challenges to expert economic testimony must focus on the particular matter to which the expert testimony is directly relevant, analyzing the reasonableness of the expert’s approach along with the expert’s particular method of analyzing the data. A laundry list of the opposing expert’s differences with the way an expert applies methodology generally should be insufficient to render the testimony inadmissible, and courts should require the party opposing the economic evidence to come forward with more than “a hodge-podge of miscellaneous attacks on so-called ‘absurd results’ and ‘faulty assumptions,’ cute rhetorical stratagems, and unsubstantiated speculation about problems that may or may not infect [the expert’s] work.” *Law v. National Collegiate Athletic Ass’n*, Civil Action Nos. 94-2053-KHV, 94-2392-KHV, 95-2026-KHV, 1998 U.S. Dist. Lexis 6640, at *20 (D. Kan. Apr. 23, 1998).

Courts should also not allow the opposing expert to criticize proffered economic testimony on a basis not asserted in the opposing expert's report. Further, the opposing expert must show specific flaws in the challenged testimony through concrete data, such as the opposing expert's own analysis, and should demonstrate either that the opposing expert has performed or tested any calculations that are criticized, or that the methodology employed is demonstrably improper. A party challenging an economic expert's methodology also can identify a methodology that is preferable to the one being challenged, and the court may find failure to do so to be indicative of the weakness of the attack on the expert. *Id.* Ultimately, the court must evaluate challenges to proffered economic testimony under the well-established principle that "the evidentiary requirement of reliability under *Daubert* is lower than the merits standard of correctness." *Id.* at *24. "The grounds for the expert's opinion merely have to be good, they do not have to be perfect. The judge might think that there are good grounds for an expert's conclusion even if the judge thinks there are better grounds for some alternative conclusion, and even if the judge thinks that a scientist's methodology has some flaws such that if they had been corrected, the scientist would have reached a different result." *In re Paoli R.R. Yard PCB Litig.*, 35 F.3d 717, 744 (3d Cir. 1994).

PRINCIPLE V-4 **Although court-appointed experts may in some cases offer the fact-finder a more neutral and more reliable perspective on issues at trial, they present a multitude of problems and are not necessary or advisable in the vast majority of cases, and a court should carefully balance the pros and cons of using court-appointed experts before exercising its discretion to do so.**

COMMENT

Under Fed. R. Evid. 706, the court has broad discretion to appoint an expert *sua sponte* or on the request of the parties. There are several possible advantages to the court's appointing an expert. First, if a particular antitrust case threatens to become a battle of the experts or an impenetrable thicket of conflicting expert testimony, a court-appointed expert may provide a more neutral and more intelligible perspective on key economic issues. Second, the presence of a court-appointed expert may reduce the adversariness of the parties' experts and induce the parties' respective experts to be more careful in their own testimony. Third, a court-appointed expert may assist the court in clarifying and narrowing disputed issues as well as assist the court and jury in comprehending the issues and the evidence. Finally, a court-appointed expert may facilitate settlement.

There are, however, a number of disadvantages to having a court-appointed expert, and these disadvantages will outweigh any potential claimed benefits in the vast majority of cases. First, although court-appointed experts theoretically are neutral, any expert will have experience and opinions that may predispose the expert on disputed issues relevant to a case. The court thus cannot be confident that the expert selected is genuinely neutral. There also is the danger that the jury may view testimony from the court-appointed expert as the court's view, and thus will put exclusive or undue emphasis on the court-appointed expert's testimony to the exclusion of other expert testimony. It may not be possible to impose sufficient procedural safeguards to prevent improper influence on the jury.

Further, as a practical matter, because the need for a court-appointed expert usually is not evident early in an antitrust case, using a court-appointed expert may lead to delay owing to the process for identifying and selecting a neutral expert. The addition of an expert to provide a perspective on the respective parties' experts also may lengthen the trial and increase the costs of litigation, as the parties typically bear the cost of the court-appointed expert.

Finally, the process of selecting a court-appointed expert is highly likely to lead to appointment of someone far from ideal or even desirable. If the court decides to appoint a neutral expert, it may select the expert on its own or with input from the parties. As part of this process, the court will have to determine the qualifications the expert should meet, define the scope of the expert's work and the information the expert should review, set a timetable, and define the work product the expert will submit to the court. The court will also have to determine whether the neutral expert will have access to the parties' experts and, if so, what kind of access. The court also must decide whether

the parties will depose the expert or examine the expert at trial and craft jury instructions related to the court-appointed expert. Most courts are not particularly well-suited for or interested in undertaking these responsibilities, given their workloads and experience. To the extent the court involves the parties in the process, the result is likely to be advocacy and conflict rather than consensus, with the consequence that the litigation becomes more unwieldy, delayed, and expensive, rather than less so.

In those exceptional cases where a court-appointed expert makes sense, the “ideal” court-appointed expert will be one who has not worked on the litigation in question or related litigation and who has no financial affiliation with any of the economic consulting firms already involved in the case. Such an expert also should agree to refuse any future work from the parties or their counsel during the pendency of the litigation and should not be currently engaged by any of the parties, their subsidiaries or affiliated companies, their officers, directors, or other representatives, or their counsel. For a discussion of best practices regarding court-appointed experts, see *Manual for Complex Litigation, Fourth*, Section 11.51; *Reference Manual on Scientific Evidence, Second*, pp. 59-63.

Unlike other countries such as Germany and France, which have official licensing bodies authorized by statute to assemble lists of professionals deemed especially qualified to serve as experts, this country currently has no particular source that assists in selecting court-appointed experts. See, e.g., Robert Goldspink, *The Expert Witness in Int'l Litig.*, INT'L COMM. LITIG. 29 (May 1, 1998); John H. Langbein, *The German Advantage in Civil Procedure*, 52 UNIV. CHI. L. REV. 823 (1985). The court in *In re High Fructose Corn Syrup Antitrust Litig.* sought referrals from the American Association for the Advancement of Science, but there likely exist other sources of potential court-appointed experts. The problem, of course, is that none of these sources guarantees neutral experts.

As an alternative to appointing an expert, the court may consider appointing a “technical advisor” to assist it in understanding the “jargon and theory” relevant to the technical aspects of the evidence. Such technical advisors are not subject to the provisions of Fed. R. Civ. P. 706. They may not supply new evidence and they do not testify at trial. They may or may not submit an expert report. See *Association of Mexican-American Educators v. California*, 231 F.2d 572 (9th Cir. 2000) (dissent by Tashima, J.).

A recent example of the use of Fed. R. Civ. P. 706 occurred in *In re High Fructose Corn Syrup Antitrust Litig.*, 295 F.3d 651 (7th Cir. 2002), where the Seventh Circuit recommended that the court appoint an expert to assist it and the jury in understanding the inferences to be drawn from technical statistical evidence. In implementing this recommendation, the trial court, with the assistance of the parties, identified criteria for selection of the expert, specifically defined the expert's task, and elicited input from the parties (which split the costs of the expert) in the selection of the expert (resulting in additional motion practice in the case). The selection and work of the court-appointed expert lengthened the pretrial process significantly as the parties briefed their positions on, *inter alia*, protocol and choice of expert, and then proceeded with the discovery necessary for the court-appointed expert to fulfill his task. Ultimately, the court-appointed expert never testified in the case, as the parties settled the case, defendant by defendant, with the last defendant settling virtually on the eve of trial. See also JOE S. CECIL & THOMAS E. WILLGING, COURT-APPOINTED EXPERTS: DEFINING THE ROLE OF EXPERTS APPOINTED UNDER FEDERAL RULE OF EVIDENCE 706 (Federal Judicial Center 1993).

The Australian system of handling expert testimony at trial provides instruction on how courts in this country might streamline the procedural and substantive problems that have arisen when courts here have invoked Fed. R. Evid. 706, or obviate the need to invoke Rule 706 at all. In Australia, the parties' counsel must give experts a written copy of the Federal Court's Guidelines for experts. One part of the Guidelines specifies that the expert's responsibility is to the Court, not to the party that has retained the expert. Experts then submit a “Draft Expert Statement,” and opposing experts are required to confer and to identify areas of agreement and disagreement as well as prepare a memorandum to the Court identifying those areas. Shortly before trial, the parties submit an Updated Statement, which is intended to take into account any new information or reconsideration by the expert. The goal of having this exchange of expert views is to narrow the areas of difference

and to highlight the reasons for any remaining differences. At trial, experts for all parties appear together (a practice that has come to be termed the “hot tub”) and each expert takes 15-20 minutes to summarize the expert’s position in a monologue (there is no “direct examination”). Then, subject to orders the judge may impose on this process, the judge may ask questions, opposing lawyers may ask questions, or the experts may question one another. Australian judges believe that this system reduces the incidence of experts acting essentially as advocates for their side rather than as genuinely objective analysts. Note, however, that there are no juries in the Australian system. See Australian Federal Court Guidelines for Expert Witnesses, http://www.fedcourt.gov.au/pracproc/practice_direct.html.

CHAPTER VI. ECONOMICS AND PROOF OF CONCERTED ACTION

INTRODUCTION

Proof of conspiracy in antitrust cases has become one of the more muddled areas of antitrust law. For many years, from the passage of the Sherman Act in 1890 up to the 1980s, the general trend of the law was towards liberalizing the type of proof sufficient to sustain a finding of fact that defendants had engaged in concerted action either unreasonably to restrain trade in violation of Section 1 of the Sherman Act, or to monopolize in violation of Section 2. Beginning in the mid 1980s, however, courts began taking a much narrower view of the type of evidence sufficient to create a submissible issue on the question of conspiracy or concerted action. The result has been to limit the types and increase the amount of proof required to prove conspiracy or concerted action when the plaintiff's proof consists of circumstantial evidence.

Along with increasing complexity and confusion in the law, a particular issue, the so-called oligopoly problem, has come into sharper focus. In an oligopoly setting, coordination of pricing and other activities is said by many commentators to become easier, if not inevitable, through conscious parallelism alone. Economic theory has posited that price uniformity that could be achieved only through express collusion in an unconcentrated market becomes much more organic and structural in an oligopoly, whose members are able to operate through conscious parallelism. Because the law has long been that conscious parallelism alone is insufficient to prove unlawful agreement, the issue for the courts has been where to draw the line between presumably lawful conscious parallelism, and unlawful collusion or agreement. In recent years, the use of economic evidence has received much attention and debate in this area. E.g., *In re High Fructose Corn Syrup Antitrust Litig.*, 295 F.3d 651 (7th Cir. 2002); *Williamson Oil Co., Inc. v. Phillip Morris U.S.A.*, 346 F.3d 1287 (11th Cir. 2003); Werden, Gregory J., *Economic Evidence on the Existence of Collusion: Reconciling Antitrust Law with Oligopoly Theory*, 71 *ANTITRUST LAW JOURNAL* 719 (2004).

The Economics and Antitrust Working Group believes this to be an area in which the formulation of well-supported, economically sound principles can be of great help in guiding litigants and courts towards greater clarity, uniformity, rationality, and conformity with the best economic thinking on the subject of concerted action. The Principles that follow are intended to achieve these objectives.

At the outset, however, some preliminary matters are worth noting. First is the critical distinction between proof by direct evidence and proof by circumstantial evidence. Direct evidence is proof that establishes the existence of a fact without the need for additional inferences or other evidence. For example, direct evidence of agreement may include admissions by co-conspirators that a conspiracy exists, eye witness accounts of conspiratorial meetings, *In re Brand Name Prescription Drugs Antitrust Litig.*, 186 F.3d 781, 785 (7th Cir. 1999), or a written agreement memorializing a conspiracy. Circumstantial evidence, on the other hand, is evidence that requires inferences or additional evidence in order to establish an ultimate fact. Sometimes the chain of inferences may be relatively short and the path to the ultimate fact relatively direct, e.g., the smoking gun in the hand of the suspect. At other times, especially in antitrust cases, with their factual complexity, the chain will be much longer and the path more circuitous to the ultimate fact. Courts have observed, "Evidence in an antitrust conspiracy case is, in most cases, circumstantial." *C O 2 Fire Equip. Co. v. United States*, 197 F.2d 489, 494 (9th Cir. 1952).

In those cases in which proof of conspiracy is by direct evidence only, economic evidence generally has a much smaller role to play than in circumstantial evidence cases. Where the direct evidence of conspiracy is incontrovertible, the probative value of economic evidence from the defense should be seriously questioned by the court. If, however, the defense denies that the direct evidence is clear proof of conspiracy, economic evidence may be appropriate on the issue of agreement *vel non*, as discussed more fully hereafter.

Where economic evidence increasingly plays a role is in cases where proof of conspiracy is by circumstantial evidence, particularly cases seeking to establish agreement from parallel conduct and plus factors. These are the cases that the Principles enunciated hereafter address.

A second important preliminary matter is that the subject of concerted action involves two fundamental and interrelated issues. The first is what constitutes agreement under the antitrust laws. The second is what are the permissible means of proving agreement. Although the case law has answered both questions, one cannot say that the decisions have been uniformly clear, consistent, or helpful as precedents.

The Supreme Court attempted to answer both questions in *Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752 (1984). To show agreement, a plaintiff must establish “a conscious commitment to a common scheme designed to achieve an unlawful objective,” and must do so through “evidence that tends to exclude the possibility of independent action.” 465 U.S. at 768. The problem with the Supreme Court’s pronouncements is that they may have raised more questions than they have answered.

The “conscious commitment to a common scheme,” which constitutes agreement, purports to be a restatement of existing law, and not a new formulation or definition of agreement under the antitrust laws. Under pre-*Monsanto* Supreme Court precedent, “It is not necessary to find an express agreement in order to find a conspiracy. It is enough that a concert of action is contemplated and that the defendants conformed to the arrangement.” *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 142 (1948); *Lawlor v. Loewe*, 209 F. 721, 725 (2d Cir. 1913), *aff’d*, 235 U.S. 522 (1915) (“It is not necessary that there be a formal agreement between the conspirators. If the evidence satisfies the jury that they acted in concert, understandingly and with the design to consummate an unlawful purpose, it is sufficient.”) In *Interstate Circuit, Inc. v. United States*, 306 U.S. 208, 227 (1939), the Supreme Court held, “Acceptance by competitors, without previous agreement, of an invitation to participate in a plan, the necessary consequence of which, if carried out, is restraint of interstate commerce, is sufficient to establish an unlawful conspiracy under the Sherman Act.”

Up to the time of *Monsanto*, lower courts construed these precedents as allowing for wide latitude in finding unlawful agreement based on conduct, which might or might not include verbal communication. *Esco Corp. v. United States*, 340 F.2d 1000, 1007-08 (9th Cir. 1965) (“Written assurances . . . are unnecessary. So are oral assurances, if a course of conduct, or a price schedule, once suggested or outlined by a competitor in the presence of other competitors, is followed by all - generally and customarily - and continuously for all practical purposes, even though there be slight variations.”); *C-O-2 Fire Equip. Co. v. United States*, 197 F.2d 489, 494 (9th Cir. 1952) (“Proof of a formal agreement is unnecessary, and were the law otherwise such conspiracies would flourish; profit rather than punishment, would be the reward.”) Indeed, even after *Monsanto* these rules have retained a measure of vitality. *Toys R Us, Inc. v. F.T.C.*, 221 F.3d 928 (7th Cir. 2000).

Commentators and at least one court have asked whether Section 1 is broad enough “to encompass a purely tacit agreement to fix prices, that is, an agreement made without any communication among the parties,” *In re High Fructose*, 295 F.3d at 654; and, if not, the nature and extent of the communication that must exist for an unlawful agreement under the Sherman Act. See discussion in Werden, 71 *Antitrust Law Journal* at 734-59. This is obviously more a question of law than economics, an issue on which expert economic evidence cannot provide guidance to a finder of fact. Accordingly, the Principles stated hereafter do not address it.

The legal definition of agreement under Section 1 is, nonetheless, a significant issue affecting the use of economic evidence to prove conspiracy *vel non*, because the definition of agreement used by an expert economist cannot be different from the legal definition guiding the court if the economic evidence is to be probative and admissible. Indeed, failure to observe and follow the court’s definition of agreement has resulted in the refusal of courts to admit or give credence to expert economic evidence. *Williamson Oil*, 346 F.3d at 1322-23. The need for expert economic evidence to conform to the applicable definition of agreement, whatever it may be, is therefore treated in the Principles hereafter.

The second aspect of agreement - how to prove it - is where economics and antitrust law intersect. In particular, economic evidence comes into play when a case involves proof of conspiracy from conscious parallelism. Conscious parallelism occurs when “the defendants’ behavior was parallel,” and “the defendants were conscious of each other’s conduct and . . . this awareness was an element in their decision-making process.” *Petruzzi’s IGA Supermarkets, Inc. v. Darling-Delaware Co., Inc.*, 998 F.2d 1224, 1242-43 (3d Cir. 1993). Under well-established law, conscious parallelism alone is insufficient to create a jury issue on the fact of agreement. *Theatre Enters, Inc. v. Paramount Film Distrib. Corp.*, 346 U.S. 537 (1954).¹ The courts have thus drawn a line between acting with knowledge of what rivals are doing, which does not amount to agreement, and acting pursuant to a commitment to a conscious scheme, which does.

In conscious parallelism cases, the issue thus becomes what else is needed to allow the trier of fact to bridge this gap and find agreement. The law has long been clear that “business behavior is admissible circumstantial evidence from which the fact-finder may infer agreement.” *Theatre Enters.*, 346 U.S. at 540. In *American Tobacco Co. v. United States*, 328 U.S. 781, 809-10 (1946), the Supreme Court expatiated on this point:

It is not the form of the combination or the particular means used but the result to be achieved that the statute condemns. It is not of importance whether the means used to accomplish the unlawful objective are in themselves lawful or unlawful. Acts done to give effect to the conspiracy may be in themselves wholly innocent acts. Yet, if they are part of the sum of the acts which are relied upon to effectuate the conspiracy which the statute forbids, they come within its prohibition. No formal agreement is necessary to constitute an unlawful conspiracy. Often crimes are a matter of inference deduced from the acts of the person accused and done in pursuance of a criminal purpose. . . . The essential combination or conspiracy in violation of the Sherman Act may be found in a course of dealings or other circumstances as well as in an exchange of words.

Eastern States Retail Lumber Dealers’ Ass’n v. United States, 234 U.S. 600, 612 (1914) (“It is elementary, however, that conspiracies are seldom capable of proof by direct testimony, and must be inferred from the things actually done. . .”).

The rule commonly articulated in conscious parallelism cases is that for a conspiracy to be inferred from conscious parallelism, the plaintiff must present evidence of what are known as “plus factors.” *Interstate Circuit v. United States*, 306 U.S. at 222-27; *C-O-2 Fire Equip. Co. v. United States*, 197 F.2d at 493; *Esco Corp. v. United States*, 340 F.2d 1000, 1007-08 (9th Cir. 1965); *Apex Oil Co. v. DiMauro*, 822 F.2d 246, 253-54 (2d Cir. 1987); *In re Plywood Antitrust Litig.*, 655 F.2d 627, 634 (5th Cir. 1981). Although there is no definitive and exhaustive list of plus factors, among those listed by the courts have been motive to conspire; opportunity to conspire; conduct against independent economic self-interest, rational only in the presence of agreement; departure from past business practice; and signaling or other information exchanges. *Merck-Medco Managed Care, LLC v. Rite-Aid Corp.*, 201 F.3d 436, 1999 WL 601840, *8-9 (4th Cir. 1999); *Apex Oil v. DiMauro*, 822 F.2d at 253-54; *Minpeco, S.A. v. Conticommodity Servs., Inc.*, 673 F. Supp. 684, 688 (S.D.N.Y. 1987). The Eleventh Circuit requires a plaintiff in a conscious parallelism case to demonstrate the existence of a single plus factor, which the court expansively defines as “any showing . . . that ‘tends to exclude the possibility of independent action.’” *Williamson Oil v. Philip Morris*, 346 F.3d at 1300.

The problem with the current state of the law, however, is a lack of uniformity among the courts in defining, applying, and giving weight to plus factors. For example, opportunity to conspire is treated by some courts as being of no weight in the absence of proof of actual agreement. *Williamson Oil*, 346 F.3d at 1319 (“Indeed, the opportunity to fix prices without any showing that appellees *actually* conspired does not tend to exclude the possibility that they did not avail themselves of such opportunity or, conversely, that they actually did conspire.”) (emphasis in original); *United*

1. Although *Theatre Enters.* is universally cited for the proposition that conscious parallelism alone cannot establish agreement, the case in fact holds that conscious parallelism alone does not require a finding of agreement. 346 U.S. at 540-41.

States v. Taubman, 297 F.3d 161 (2d Cir. 2002). While the Fourth Circuit finds that “evidence of acts contrary to an alleged conspirator’s economic interest is perhaps the strongest plus factor indicative of a conspiracy,” *Merck-Medco*, at *10; the Third Circuit finds that “evidence that the defendant acted contrary to its interest” “largely restate[s] the phenomenon of interdependence,” which is what produces conscious parallelism. *In re Flat Glass Antitrust Litig.*, 385 F.3d 350, 360 (3e Cir. 2004).

Into this cloudy broth, the parties have increasingly added the seasoning of expert economic evidence, which has two principal flavors. First, there is evidence of market structure, which analyzes the features of an industry that render it more or less conducive to agreement or cartel-like behavior, such as concentration, barriers to entry, nature of the product, availability of pricing information, ease of policing an agreement, capacity utilization, and other factors that may make agreement desirable or practicable, or undesirable or impracticable. Second, there is evidence of market performance: the behavior of competitors in the industry and whether it is indicative of competition or collusion. Such evidence may include “fixed relative market shares”; “market-wide price discrimination”; “exchanges of price information”; “regional price variations”; “identical bids”; past express price-fixing; and “exclusionary practices.” R.A. Posner, *Antitrust*, pp. 51-100, “Price Fixing and the Oligopoly Problem” (2d ed.) (University of Chicago 2001). To this endeavor, economists bring a variety of tools, such as econometric modeling, and a variety of economic theories and teachings, some of which courts find helpful, *In re High Fructose*, 295 F.3d at 654-55; and some not, *Williamson Oil*, 346 F.3d at 1317. Still other courts find such economic evidence relevant, but neither necessary nor sufficient to permit a trier of fact to find agreement. *In re Flat Glass Antitrust Litig.*, at n.12.

Assuming an economist has applied sound methods based on valid and accepted theory, the question of whether the court will accept the economic evidence may well turn on the court’s own economic theory of oligopoly, which may or may not have a sound basis in economics. The economics of oligopoly have not been free of controversy, and have evolved and changed over time.

Much of the current judicial thinking on oligopoly derives from Donald F. Turner, *The Definition of Agreement Under the Sherman Act: Conscious Parallelism and Refusals to Deal*, 75 *HAR. L. REV.* 655 (1962). In his influential article, Professor Turner argued that coordinated pricing and other cooperative behavior resulting from conscious parallelism should not be treated as agreement under the Sherman Act. Turner’s rationale was three-fold: (1) he believed oligopoly behavior to be no different from that of sellers in a competitive industry in taking into account probable actions and reactions by competitors; (2) he concluded that to outlaw oligopoly behavior would be to make oligopoly pricing a violation, which would be inconsistent with the Sherman Act’s not treating monopoly pricing as a violation; and (3) he found meaningful injunctive relief to be impossible because the conduct at issue was rational behavior taking into account probable responses of competitors. Werden, *Economic Evidence of Collusion*, 71 *ANTITRUST LAW JOURNAL* at 772-73.

The Turner view of oligopoly, at least with courts considering the issue, has consistently carried the day, and is deeply entrenched with the courts, even if they do not give Turner due attribution in their decisions. *E.g.*, *Williamson Oil*, 346 F.3d at 1298-1300.

In 1969, another distinguished thinker in antitrust, Professor Richard A. Posner, now Judge Posner, laid out a dissenting view, differing from the Turner view on oligopoly. Richard A. Posner, *Oligopoly and the Antitrust Laws: A Suggested Approach*, 21 *STANFORD LAW REV.* 1562 (1969). Since his original article, Posner has amplified and refined his thesis in scholarship and judicial opinions. Posner, *Antitrust Law: An Economic Perspective*, Chapter 4 (1976); Posner, *Antitrust*, pp. 51-100, “Price-Fixing and the Oligopoly Problem” (2d ed.) (University of Chicago 2001); *In re High Fructose*, 295 F.3d at 654. In Posner’s view, “. . . the interdependence theory of oligopolistic pricing . . . is inadequate,” *Antitrust* (2d ed.) at p. 57, because: (1) time lags in matching price cuts and differences in ability to expand output in response to price cuts may render price competition feasible in oligopolies; (2) price cuts may not affect rivals if they result in sales to new customers, or are only partial, and are thereby feasible in oligopolies; (3) the interdependence theory does not adequately explain how prices have risen above competitive levels in the first place; and (4) matching price increases involves choices to forgo benefits from competing that are against self-interest in the absence of agreement. He concludes, “There is no sound basis in economic theory for thinking that if there are just a few major sellers in a market, competition will disappear automatically.” *Id.* at 69.

Posner has also argued that the courts can and should find agreement based solely on the operation of conscious parallelism in an oligopoly setting. “Each seller must still decide whether to limit output, and this implies at least tacit negotiation with his major competitors.” *Id.* Accordingly, “it may be possible to demonstrate through economic evidence the existence of collusive pricing even though no overt acts of collusion are detected.” *Id.* at 79. The same views are floated in *Fructose*, 295 F.3d at 654.

Unlike Turner, whose view has received general acceptance by the courts, Posner’s position has received hardly a mention in reported decisions. *In re Flat Glass Antitrust Litig.*, *Id.* (in the course of stating and embracing the Turner position, the Third Circuit gives Posner two “but see” references and no more).

Economics has brought to bear on the “Turner-Posner debate” modern oligopoly theory, which applies the teachings of game theory and the Prisoners’ Dilemma. Werden, *id.* In the Prisoners’ Dilemma, prisoners A and B, accused of the same crime, are held in isolation, unable to communicate with each other. Each is told that if one implicates the other, while the other remains silent, the prisoner accusing the other will go free, while the one remaining silent will receive a substantial penalty, say a ten-year sentence. Each is also told that if each accuses the other of the crime, then both will receive an intermediate penalty, say a five-year sentence. Finally, each is told that if both remain silent, both will receive a much lighter penalty, say a three-year sentence. The insight of game theory is that in the absence of prior agreement, express or tacit, each prisoner’s informing on the other prisoner will become a dominant strategy, because of the potential cost of not doing so.

One important contribution of modern oligopoly theory is to recognize that the Prisoners’ Dilemma provides a starting point and conceptual framework for analyzing competitive behavior in an oligopoly setting. Although few competitive scenarios may actually present a Prisoners’ Dilemma, economic theory has something important to say about all those scenarios that do not present a Prisoners’ Dilemma. In the Prisoners’ Dilemma, informing is a dominant strategy, in the sense that if one prisoner went first and the other prisoner were able to observe the action of the first prisoner, the second prisoner would inform no matter what the first prisoner did. Hardly any competitive scenarios have such dominant strategies, moreover, as most competitive situations are not one-shot interactions, as in the Prisoners’ Dilemma, but involve repeated and continuing interactions among firms over time.

Where firm conduct is inconsistent with the outcome of a one-shot interaction, it is reasonable to infer that firm conduct reflects the outcome of repeated interaction, and thus coordination in an economic sense, but that result may or may not reflect the outcome of an agreement in the legal sense. The point is that with repeated interaction, many outcomes are often possible, and firms may find an outcome with higher than competitive prices that will be sustainable, although they need not necessarily find that outcome through agreement. Mere price leadership, for example, may be enough. In such circumstances, without more, there is no agreement under the present state of the law.

It is therefore important to distinguish between coordination and agreement. Coordination, in which firms act with knowledge and expectations of what their rivals are doing, may properly be considered a prerequisite for agreement, and can be inferred from a multitude of factors on which an economic expert might appropriately opine. (For example, evidence as to concentration and entry barriers might be relevant, as might simulation modeling.) Agreement, however, under the present state of the law, requires more than mere coordination. In addition, the trier of fact must be able to conclude that it is more likely than not that the particular outcome could not have been reached absent negotiation through some form of communication, either verbal or nonverbal. This is what distinguishes mere price leadership and coordination from agreement. An economist may be able to opine on this question to some extent, such as by analyzing whether a particular outcome is too complex to have arisen plausibly through price leadership, but would instead have required greater communication than simple price signaling would permit. Non-economic evidence, *e.g.*, as to communication or the opportunity to communicate, would of course also be relevant.

Modern oligopoly theory provides a basis for expert economic testimony that action is contrary to individual economic self-interest in the absence of agreement. Although the courts generally recognize this as a plus factor, the cases have generally been unable to define and apply this concept in a clear and consistent manner. Expert economic testimony may thus be helpful in enabling the trier of fact to understand whether conduct in question is truly contrary to individual economic interests in the absence of agreement.

For example, firms in an oligopoly may have increased prices more or less simultaneously, where there is an irreversible penalty associated with an unsuccessful attempt to lead or follow a price increase, like the permanent, irrecoverable loss of important customers if all firms do not match. Given such a permanent disadvantage from guessing wrong about whether other competitors will match, an economist may be able to testify that no rational firm would have initiated or matched the price increase in the absence of agreement that all firms would match. Hence, undertaking such conduct would be contrary to individual economic self-interest, but rational if the firms had reached agreement. Such expert economic analysis, applying game theory and the Prisoners' Dilemma, may provide a principled basis for showing when conduct is or is not contrary to economic self-interest in the absence of agreement. The question then becomes whether this should be sufficient to infer agreement, or whether additional evidence ought to be required, and of what sort, such as evidence of actual verbal or nonverbal communication. These, however, are questions not of economics, but of law, for the courts to resolve.

The contribution of modern oligopoly theory is to provide a sound economic basis for finding the presence or absence of this plus factor, action contrary to self-interest in the absence of agreement. This is indeed potentially a valuable contribution, which may help bring order and clarity to an area of law much confused at present. Economics has something to offer here, and there is no reason not to receive and consider this evidence in deciding whether there is a genuine issue of fact on action contrary to self-interest in the absence of agreement. Accordingly, the Principles hereafter will address this issue.

Finally, there is the matter of the terms used by economists in expressing their opinions on issues of concerted action. It is one thing for economists to say that in their opinion economic conditions are conducive or not conducive to the formation of an agreement, or that conduct is or is not consistent with the existence of an agreement. It is quite another to testify to opinions that agreements do or do not exist. The line to be drawn is between Rule 702's allowance of expert evidence to "assist the trier of fact to understand the evidence or to determine a fact in issue," and testimony that improperly usurps the functions of the jury. Expert economic testimony on issues of concerted action ought to observe this distinction, and not violate it. The Principles hereafter address this.

PRINCIPLE VI-1 Economic evidence on the existence vel non of agreement should have a foundation in sound economic theory.

COMMENT

For economic evidence on agreement to be considered, the testifying economist must clearly specify the economic assumptions, theories, and models relied upon, and the court must be satisfied that the underlying economics is sound in the sense of being "the product of reliable principles and methods," as required by Federal Rule of Evidence 702. This means that the economist must be clear about the underlying model or theory of oligopoly relied upon if the model affects the opinions expressed. Similarly, if the expert economist is testifying regarding conduct against apparent self-interest in the absence of agreement, the economist ought to describe clearly the theoretical basis for this opinion. In opining whether conduct is consistent or inconsistent with the presence or absence of agreement, the economist must make clear to the court that there is a sound economic basis for the opinions expressed. Obviously, there must also be disclosure of all other significant economic principles and assumptions relied upon. Finally, as expressed in Principle VI-4, *infra*, the economics relied upon must respect and be consistent with the legal definition of agreement guiding the court.

PRINCIPLE VI-2 Evidence of market structure may, in appropriate circumstances, shed light on whether a claim of conspiracy is plausible or implausible, but must be examined carefully.

COMMENT

Although the general principle favors the receipt of evidence of market structure, this can only occur where the theory of the plaintiff's case is clearly articulated and understood. There is no point in receiving such evidence in a vacuum and then divining whether the economic evidence can support a theory. The plaintiff's expert economist should first articulate the plaintiff's theory of the case, and then explain why the economic evidence supports the theory. The defense expert economist is entitled to know the plaintiff's theory before analyzing and opining on the economic evidence. Similarly, the defense expert economist should clearly articulate the theory of any defense before opining on whether the economic evidence supports the defense, and the plaintiff's expert economist is entitled to know the theory of any defense before analyzing whether the economic evidence rebuts it.

Depending on the plaintiff's theory, there may well be specific aspects of market structure relevant to the issue of the existence or nonexistence of concerted action. In particular, the structure of the market may render the plaintiff's theory either plausible or implausible, a factor that may have an effect on the quantum of proof required to raise a triable jury issue. *Merck-Medco, id.* at *8; *Fructose*, 295 F.3d at 661; *In re Flat Glass, id.* at 357-58.

Conspiracy is more plausible in markets characterized by high concentration, entry barriers, fungible products, excess capacity, high fixed costs, ready access to pricing information, and many small customers or suppliers. *Fructose*, 295 F.3d at 656-58; *In re Flat Glass, id.* at 358-59. Conversely, concerted action is less plausible in industries marked by lack of concentration, low entry barriers, differentiated products, low fixed costs, high capacity utilization, large customers or suppliers, and difficulty of ascertaining pricing information. Economists should be permitted to present evidence on these structural features where they may be relevant to gauging the plausibility or implausibility of the theories of the case.

Nonetheless, courts should always examine such evidence carefully to ascertain whether it truly explains and is logically connected with the conduct that is at issue in the case. The economist must be required to explain why and how structural evidence relates to behavior of firms in the industry and provides a basis for inferring that actions are consistent or inconsistent with agreement. Finally, such structural evidence can never be sufficient or conclusive in itself to prove or disprove the presence or absence of agreement. Its value is only in its tendency to add force to, or detract from, other evidence of agreement or its absence.

PRINCIPLE VI-3 Economic evidence offered on the issue of concerted action vel non must respect and acknowledge the legal principle that conscious parallelism alone does not constitute agreement.

COMMENT

Since *Theatre Enters.*, the law has been clear that conscious parallelism alone is insufficient to establish an agreement under Section 1 or Section 2 of the Sherman Act. There is no point in receiving economic evidence that does not recognize this fundamental rule of antitrust law. Thus, if economic evidence does no more than establish the existence of conscious parallelism, it is of no probative value and should be excluded. If the law regarding conscious parallelism is to be changed, that is for the courts, not for economists.

On the other hand, if the thrust of economic evidence is to show a market structure in which concerted action is plausible, then the evidence ought to be received. If, at the end of the day, the plaintiff's case is no more than proof of a market structure in which concerted action is plausible, coupled with conscious parallelism, then, under the present state of the law, the plaintiff has not carried the burden of creating a triable issue of conspiracy.

PRINCIPLE VI-4 Economic evidence offered on the issue of concerted action *vel non* must respect and acknowledge the legal definition of agreement guiding the court in the case at issue.

COMMENT

As a baseline and prerequisite for testifying regarding concerted action, an economist should acknowledge and clearly specify the definition of agreement to which the economist will be applying the economist's findings. If the applicable definition of agreement used by the economist does not comport with the legal definition of agreement guiding the court, the court should exclude the economic evidence. Not only is the definition of agreement a matter of law for the court, but also it is a crucial touchstone for determining whether economic evidence has relevance and should be admissible. The court, the parties, and their experts should be clear and specific as to the applicable legal definition of agreement, and the economist's testimony must respect and conform to that definition. Without knowing the legal definition of agreement to be applied in a particular case, there is no way to give credit to the testimony of an economist that evidence either supports or rebuts the existence of agreement. Although the operable definition of agreement may not always be clear or consistent from court to court, the economist ought to ascertain, to the extent possible, the definition of agreement guiding the court that will be considering the economist's testimony, and the testimony should be consistent with that definition.

PRINCIPLE VI-5 Economic evidence offered on the issue of concerted action *vel non* in an oligopoly setting should particularly describe the economic principles and theory underlying the analysis and justify its applicability to the evidence of record.

COMMENT

This Principle is merely a more specific application of Principle VI-1. It is set out separately, however, because of the frequency with which economists are called upon to testify in conspiracy cases involving oligopoly markets; the burgeoning and evolving economic scholarship in the area of oligopoly theory; and the lack of uniformity and clarity in the case law dealing with oligopoly issues.

Whether conscious parallelism acting alone in a particular business setting can produce coordinated, noncompetitive pricing is not a pure issue of law, but involves the application of economic theory to facts of record. The parties and the court ought to know the economic principles and theories of oligopoly that are being applied, so that they can be properly critiqued and evaluated.

As discussed in the introduction, *supra*, the Turner approach posits that conscious parallelism alone can often produce coordinated, noncompetitive pricing, which ought not to be treated as agreement under the law. The Posner approach disputes elements of the theoretical underpinning of Turner, and promotes a more expansive definition of agreement under the antitrust laws. Modern oligopoly theory to some degree synthesizes the Turner and Posner approaches, by positing that game theory and the Prisoners' Dilemma can be applied to test whether coordinated, noncompetitive pricing in an oligopoly setting is or is not the result of actual agreement.

When an economist testifies that such pricing results from purely conscious parallelism, or from actual agreement, the economist ought to be clear about whether the expert's opinion is the product of the application of any theoretical model of oligopoly, and, if so, which one, and how it has been applied. If this is done, then the court and opposing parties have a better opportunity to test and weigh the economic evidence.

PRINCIPLE VI-6 Economic evidence offered on the issue of whether conduct is or is not contrary to independent self-interest in the absence of agreement should be consistent with the teachings of sound economic scholarship and theory.

COMMENT

The particular plus factor often given greatest weight by the courts, and yet the one where most confusion exists is action contrary to independent economic self-interest in the absence of agreement. Courts state the principle, stress its importance, and yet the case law generally fails to provide guidance on its application.

Modern oligopoly theory offers a means of clarifying this area of law through application of game theory and the Prisoners' Dilemma, which provide a framework for analyzing whether conduct may or may not be contrary to individual economic self-interest in the absence of agreement. These analytic tests can be applied to an oligopolist deciding whether to implement or follow a price increase.

Modern oligopoly theory thus provides a principled, economically-sound methodology for framing economic testimony tending to prove or disprove the existence of a long-recognized and emphasized plus factor in conscious parallelism cases. When expert economists testify concerning action contrary to independent self-interest in the absence of agreement, they should be prepared to defend their opinions on the basis of sound oligopoly theory, and the admissibility of their testimony should be affected by whether they can effectively do so.

Nonetheless, showing that this plus factor exists does not necessarily answer the questions of whether conscious parallelism and this plus factor should be sufficient to permit the trier of fact to find an unlawful agreement, and, if they are not, what additional proof should be required, such as evidence of actual communication. These, however, are not questions of economics, but of law; and their resolution must lie with the courts. What economic testimony soundly grounded in accepted theory and scholarship can contribute is proof that conduct occurred that, depending on the circumstances, is probative or not probative of actual agreement. Whichever way the economist comes out will and should affect the degree of scrutiny and weight the court gives to the remaining evidence in the record. To that extent, such evidence should be helpful.

PRINCIPLE VI-7 Evidence of market performance may, in appropriate circumstances, be relevant in showing whether or not conduct is the result of agreement, but must be examined carefully.

COMMENT

In his antitrust treatise, Posner lists 17 types of evidence of market performance that are probative in his view of the existence of agreement. *Antitrust, id.*, pp. 79-93. He discusses others in *Fructose*. 295 F.3d at 658-61. Some of these are relatively uncontroversial (*e.g.*, identical bids; constant market shares in a period of rising demand; higher prices during the period of the alleged conspiracy than before or after). Others are subject to debate in the economic literature (*e.g.*, price discrimination; past antitrust violations; exchanges of pricing information).

There can really be no general rule or guideline with regard to economic evidence of market performance as it bears on the issue of agreement *vel non*, other than to say that in appropriate circumstances, such evidence may be probative, but it should always be examined carefully before it is admitted or weighed. In considering such evidence, the court should always first require the economist to specify the basis in economic theory that supports the opinion that the evidence of market performance demonstrates the existence *vel non* of agreement. This will afford a fair opportunity for opposing parties to discredit or qualify the underlying theory, demonstrate its inapplicability, or both.

Second, in each instance where market performance is claimed to demonstrate agreement *vel non*, the economic expert should be required to demonstrate that the particular aspect of market performance is not attributable to factors other than what is claimed by the economist to be causative. If the economist cannot rule out other factors, then the economist must justify the choice of causation as more probable than not.

Market performance includes a wide range of indicia, many of which are uncertain of measurement and debatable with respect to their meaning and significance. Among its more problematic aspects are profit levels, market shares over time, bidding and pricing behavior, and past antitrust violations. Accordingly, evidence of market performance should be received only when its proponent has properly justified the proffer in economic theory and its applicability to the facts of record.

PRINCIPLE VI-8 Economic evidence on the issue of agreement *vel non* must be stated in appropriate non-conclusory language that is grounded in economic theory and does not usurp the function of the finder of fact.

COMMENT

There are appropriate and inappropriate ways to express opinions about the existence or nonexistence of concerted action. It should almost always be appropriate to express an opinion that an economic model of non-cooperative behavior posits certain conduct, and evidence is consistent or inconsistent with that model. Likewise, an economist can testify that an economic model defines conduct against self-interest in the absence of agreement in particular terms, and that conduct shown by the evidence is or is not consistent with that definition. It will almost always be inappropriate, in a circumstantial evidence case, to testify that an agreement exists or does not exist. Between these two extremes, there is a range of forms of expression, from “the evidence suggests or is consistent or inconsistent with agreement or the absence of agreement,” to “my opinion as an expert economist is that the evidence I have reviewed, in light of economic theory, demonstrates the existence or nonexistence of an agreement.” The court must ultimately make the decision whether the expert has exceeded the limit of Federal Rule of Evidence 704: “. . . testimony in the form of an opinion or inference otherwise admissible is not objectionable because it embraces an ultimate issue to be decided by the trier of fact.” Nonetheless, the more categorical the economist’s testimony is concerning the existence or nonexistence of agreement, the less useful the opinion becomes, and the more explanation is required to justify it. The trier of fact is better served by testimony that evidence is consistent or inconsistent with an economic model, or supportive or not supportive of an economic model related to understanding whether behavior is cooperative or non-cooperative. The opinions are only as persuasive as the analysis of fact and theory that produces them, and this is where the focus of the testimony should be, not on stating the opinions in the most categorical terms possible.

PRINCIPLE VI-9 Courts should receive economic evidence on the issue of agreement *vel non* only after ensuring that an adequate foundation exists.

COMMENT

This Principle is essentially a recapitulation and summary statement of Principles 1 - 8. When a party presents expert economic evidence on the issue of concerted action, the adequate foundation that must exist to make the evidence admissible should include: (1) a clearly articulated theory of the party’s case; (2) an appropriate fit of the economic evidence with the theory of the case; (3) for quantitative evidence, the use of accurate and generally accepted methods of measurement; (4) the identification and explanation of all economic theory supporting the expert’s opinion that market structure or market performance is consistent or inconsistent with agreement; and (5) a reasoned elimination of other possible factors as causes of observed market performance relied upon for the expert’s opinion.

In summary, economic evidence has its place in the proof or disproof of concerted action. What is needed is rigor in requiring economists to make their work transparent, so that courts can better understand its theoretical underpinnings and how they apply to the evidence of record. When that is achieved, the courts will be much better able to create a coherent, well-reasoned jurisprudence of concerted action under Sections 1 and 2 of the Sherman Act.

CHAPTER VII. HARM TO COMPETITION

INTRODUCTION

Antitrust law proscribes practices that harm competition. This chapter addresses what is harm to competition for purposes of antitrust law, and how is such harm proved or refuted.

The term “harm to competition” is used not in a dictionary sense but in a legal sense. The words mean harm that does or should trigger the application of the antitrust laws. The terms “harm to competition,” “competitive harm,” and “antitrust harm” are used interchangeably.

While there is some disagreement among courts as to what constitutes harm to competition, and how such harm is proved or refuted, there is agreement on outer limits. This discussion will start with areas of consensus and then proceed to more difficult issues.

In general, agreements and strategies that increase market power, raising prices and lowering output, and that are not justified as legitimate market responses, cause harm to competition. Cartels are the most notorious example. At the other extreme, injury to competitors from competition itself is not harm to competition.

Most antitrust harms are actual or threatened consumer harms, and most antitrust harms to consumers are harms from price increases. At high levels of concentration, lessened choice and lessened innovation may also be antitrust harms. Harms to producers from buyers’ cartels also qualify as antitrust harms. Some but apparently a dwindling number of cases recognize as antitrust harm unjustified foreclosures from the chance to contest a market. At the other extreme, according to a few courts, consumer harm from anticompetitive transactions may not be sufficient to sustain a violation. In merger cases it is argued by some that harm to total welfare should be required.

Even assuming agreement on what is necessary to constitute harm to competition, questions remain as to what constitutes sufficient proof that the harm has occurred or will probably or may occur. For example, courts disagree as to whether an inference of a probable price rise can be drawn from the fact of unjustified conduct by a firm with market power that significantly excludes rivals.

History

Until the mid to late 1970s, the Supreme Court, and thus the lower courts, had a view of harm to competition that is very different from the view prevalent today. Competition was seen as a multi-valued dynamic process among more than a few competitors. The process, it was expected, would check the market power of dominant firms in concentrated markets, protecting the autonomy and opportunities of firms without power, preserving diversity, and providing governance by the market, not by powerful firms. This process and its protection by antitrust law were expected to work for the benefit of consumers and the benefit of the market, as well as the benefit of firms without power. See Eleanor M. Fox, *The Modernization of Antitrust: A New Equilibrium*, 66 Cornell L. Rev. 1140 (1981). The law, however, began to tilt in the direction of protecting smaller competitors from efficient competition, thus handicapping efficient competition. See *Brown Shoe Co. v. United States*, 370 U.S. 294 (1962) (prohibiting a merger in part because it was efficient); *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), *overruled by Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (protecting the autonomy of dealers without regard to the efficiency of the vertical restraints that limited their freedom). This phenomenon led to significant revisions and adjustments beginning with small steps in the mid 1970s,¹ changes to the underlying concept of antitrust and antitrust harm in 1977,² and finally the creation of a new model -- a price-theory consumer welfare model -- after 1980.³

1. See *United States v. General Dynamics Corporation, et al.*, 415 U.S. 486 (1974) (refusing to credit a statistical merger case of relatively high concentration and a significant increase in concentration when, under the circumstances of exhausted coal reserves, the statistics were not a good proxy for the future market position of one of the acquired firms).
 2. See *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (declaring that antitrust is based on economics and rejecting the free-trader doctrine).
 3. See Eleanor M. Fox & Lawrence A. Sullivan, *Antitrust -- Retrospective And Prospective: Where Are We Coming From, Where Are We Going?*, 62 N.Y.U. L. Rev. 936 (1987).

The *Brunswick* case is a particularly strong symbol of the changes. In *Brunswick*, plaintiff bowling alley sought to recover profits lost by reason of defendant's acquisition of failing bowling alleys, which acquisition reinvigorated the failing firms. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477 (1977). In denying relief to the plaintiff on the ground that an "antitrust injury" had not been shown, the Court said: "The antitrust laws [] were enacted for 'the protection of competition not competitors.'" *Id.* at 320 citing *Brown Shoe Co. v. United States*.

The theme of *Brunswick* has been repeated in many cases, including *Spectrum Sports, Inc. v. McQuillan*, where a manufacturer of a polymer declined to sell the polymer to a distributor, which went out of business. *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447 (1993). As the Court said: "The purpose of the [Sherman] Act is not to protect businesses from the working of the market; it is to protect the public from the failure of the market. The law directs itself not against conduct which is competitive, even severely so, but against conduct which unfairly tends to destroy competition itself." *Id.* at 458.

Brunswick has helped to focus courts on screening out conduct from antitrust condemnation that is responsive to the market and that benefits consumers. The "harms" such conduct causes are the normal harms from competition itself. This is the concept articulated in Principle VII-1.

Brunswick, however, does not give guidance within the larger area that remains: e.g., when do market-foreclosing acts produce competitive harms; when may competitive harms be inferred; what are plaintiffs' burdens; and when does the burden shift. These and other questions are dealt with below.

PRINCIPLE VII-1 Harm to competitors from competition itself is not harm to competition.

COMMENT

Harm from competition is not antitrust harm. This is a lesson from *Brunswick*, as explained above. Thus, if Wal-Mart targeted and destroyed a community of small stores by sustainable low-priced competition, the damage to the small stores would not be harm to competition; it would be harm from competition.

PRINCIPLE VII-2 Cartels harm competition.

COMMENT

The clearest case of harm to competition is harm from cartels. By their nature, cartels harm competition, legally, economically, and definitionally. Cartels typically lead to higher prices, which harm consumers. Selling cartels harm intermediate buyers and consumers; buying cartels harm producers.

PRINCIPLE VII-3 Conduct that interferes with the competitive process and harms consumer welfare is conduct that harms competition.

COMMENT

This Principle, too, is commonly accepted.⁴ Reduction in consumer welfare from anticompetitive conduct is the paradigm market harm. Robert Lande argues that the prevention of wealth transfers from consumers to producers constitutes the primary purpose of antitrust laws. See Robert H. Lande, *Wealth Transfers As The Original And Primary Concern Of Antitrust: The Efficiency Interpretation Challenged*, 34 *Hastings L.J.* 65 (1982).

4. See *Reiter v. Sonotone Corporation*, 442 U.S. 330, 342-343 (1979); Robert H. Bork, *The Antitrust Paradox: A Policy At War With Itself* 66 (The Free Press 1978); Howard H. Chang, David S. Evans & Richard Schmalensee, *Has The Consumer Harm Standard Lost Its Teeth?*, published in *High-Stakes Antitrust: The Last Hurrah?* (Robert W. Hahn ed., AEI-Brookings Joint Center for Regulatory Studies 2003).

There are, however, a few exceptions to this common principle. First, some argue that antitrust law should require harm to total welfare, i.e., that conduct, to be actionable, must decrease aggregate efficiency or the sum of consumer and producer surplus. For instance Bork states that “[t]he whole task of antitrust can be summed up as the effort to improve allocative efficiency without impairing productive efficiency so greatly as to produce either no gain or a net loss in consumer welfare.” Bork, *supra* note 4, at 91. While the distinction between consumer harm and total harm is not usually material, it is fundamental in the sense of whom or what antitrust protects -- the consumer, or a more abstract notion of aggregate efficiency or total wealth.⁵

The distinction between consumer and total welfare could be case-determinative at least in merger cases. To the extent that efficiencies may offset consumer harm, the goal of consumer welfare is trumped. One analyst explains the difference as follows: “A price increase causes a wealth transfer from consumers to producers. Under a consumer surplus test, this is the basis for condemnation of the merger, but under a total surplus test it is irrelevant. What matters under that standard is the portion of the loss in consumer surplus that is not merely transferred to producers, but rather lost to society as a result of the inefficient reduction in output.” Gregory J. Werden, *An Economic Perspective On The Analysis Of Merger Efficiencies*, 11 Antitrust 12, 14 (Summer 1997). Note that the consumer surplus and total surplus standards generally yield the same outcomes, particularly where efficiencies reduce marginal costs sufficiently.

The case law generally but not always adopts the consumer welfare standard. The Merger Guidelines are likewise consumer-oriented. Under the Guidelines, the inquiry is whether “cognizable efficiencies are of a character and magnitude such that the merger is not likely to be anticompetitive,” and the federal enforcement agencies consider whether “cognizable efficiencies likely would be sufficient to reverse the merger’s potential to harm consumers in the relevant market, e.g., by preventing price increases in that market.” U.S. Dep’t of Justice & Federal Trade Comm’n, Horizontal Merger Guidelines Section 4 (as amended Apr. 8, 1997).

Second, in some cases, the consumer may be harmed but the law will not trace the consequences of the particular conduct or performance either because producer incentives are generally aligned with consumer interests or because in general the costs of antitrust intervention are greater than its benefits. Monopoly pricing,⁶ a dominant firm’s design changes that have a meaningful claim to product improvement,⁷ targeted low prices not below cost but en route to yet higher monopoly prices,⁸ exclusion of a non-rival from an essential facility,⁹ and most other unilateral refusals to deal¹⁰ are examples.

Third (in addition to the above), the conduct may not qualify as anticompetitive even though consumers are ultimately harmed. The conduct may be a tort but not an antitrust offense. For instance, in *NYNEX Corporation v. Discon Incorporated*, defendants’ vertical restraint was a fraud on the public and raised prices, but did not harm the market (for removal of obsolete phone wires). *NYNEX Corporation v. Discon Incorporated*, 525 U.S. 128 (1998).

PRINCIPLE VII-4 Higher prices and lower output are consumer welfare harms. Coerced choice may qualify. Also, net loss to innovation and attendant loss of choice in highly concentrated markets may qualify.

COMMENT

“The touchstone of illegality is raising prices to consumers.” Robert H. Bork, *Legislative Intent and The Policy of The Sherman Act*, 9 J.L. & Econ. 7 n.2 (1966). Both courts and the enforcement agencies agree in theory (although not necessarily in practice) that consumer harm in the

5. Also in contention is the notion of protecting market competition. See principles VII-5 through VII-8.

6. See *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, 124 S.Ct. 872 (2004).

7. See *United States v. Microsoft Corporation*, 253 F.3d 34 (D.C. Cir. 2001), cert. denied, 534 U.S. 952 (2001).

8. See *Brooke Group Ltd. v. Brown & Williamson Tobacco Corporation*, 509 U.S. 209 (1993).

9. See *Official Airline Guides, Inc. v. Federal Trade Commission*, 630 F.2d 920 (2d Cir. 1980).

10. See *Trinko*, 124 S.Ct. 872 (2004).

form of actual or threatened material and sustained reduction in output or an increase in price is a necessary element of an antitrust violation (in other than per se cases).¹¹

In *California Dental Ass'n v. Federal Trade Commission*, 526 U.S. 756 (1999), dentists' by-laws restricted discount and quality advertising, among other things. The Federal Trade Commission and the appellate court found the restrictions obviously anticompetitive and illegal. No economist had testified, however, as to whether or how consumers were harmed. The Supreme Court reversed, noting that the ultimate question was not the restriction of output of advertising but the reduction of the total delivery of dental services. It noted the absence of empirical evidence, and held that the record did not provide a sufficient basis for concluding that the by-laws harmed competition. *Id.* at 776-77.

The notion of consumer harm is an integral part of the Supreme Court's treatment of claims arising under Section 2 of the Sherman Act. Predatory pricing is an *fortiori* example, in view of the value of low pricing. In *Brooke Group*, the Supreme Court required a showing that "real market injury" is likely to occur. *Brooke Group*, 509 U.S. at 231-237. Such a showing, it said, would include an estimate of the cost of the predation and a close analysis of both the scheme alleged and the relevant market's structure and conditions to determine whether the putative predator could probably recoup its loss. *Id.* at 231-232. "[A]lthough unsuccessful predatory pricing may encourage some inefficient substitution toward the product being sold at less than its cost, unsuccessful predation is in general a boon to consumers." *Id.* at 224.

In highly concentrated markets, net loss to innovation and attendant loss of choice may also be consumer welfare harms. These, however, are not generally accepted harms. Some courts and authorities prefer a principle of non-intervention in the absence of price rise and output limitation, believing that net loss of innovation is too difficult to detect or predict and that loss of significant choice is too rudderless a test.

The FTC's closing of its investigation of Genzyme Corp.'s acquisition of Novazyme Pharmaceuticals presented insights into the FTC's position on elimination of potential competition in innovation markets. In *the matter of Genzyme Corp. and Novazyme Pharms., Inc.*, FTC File No. 021-0026 (Muris, Chairman), available at <http://www.ftc.gov/os/2004/01/murisgenzymestmt.pdf>. The merger partners were the only two firms innovating a treatment for a rare infant disease. In voting to close the investigation, the FTC was split as to whether the potential significant loss of innovation constituted anticompetitive harm. Chairman Muris maintained that the FTC should be cautious in using innovation-market analysis because "economic theory and empirical investigations have not established a general causal relationship between innovation and competition." *Id.* Commissioners Thompson and Harbour Jones disagreed.

Commissioner Thompson feared that closing the investigation without issuing a complaint "could raise questions about the enforcement policies concerning innovation competition embodied in the [various agency guidelines], as well as the Commission's long-standing merger enforcement efforts involving innovation markets." *Id.* Commissioner Harbour Jones, who did not participate in the disposition of the case, nonetheless summarized her views. She emphasized that competition drives innovation, and stated that a rebuttable presumption of anticompetitive effects may be appropriate where a firm has acquired, over time, all the research and development tracks of its immediate rivals and is unencumbered by the threat of timely and sufficient entry by any challenger. *Id.*

In addition, coerced choice may possibly be a consumer harm. Recognition of this harm can be a function of the character of the conduct. For example, in *FTC v. Indiana Federation of Dentists*, where the dentists collectively refused to provide insurers with their patients' x-rays, the harm was that consumers' demands were defeated. *FTC v. Indiana Federation of Dentists*, 476 U.S. 447 (1986). Consumers (impliedly, through the insurers) wanted their dentists to give the x-rays to their

11. In practice, however, lower courts have not always required such effects. As discussed herein, there is disagreement whether dynamic or process harms, often in the form of unjustified exclusions, are properly accepted as antitrust harms. This section addresses the clearer case -- outcome harms -- while Principles VII-6 and VII-7 address the issue of dynamic and process harms.

insurers. Consumer sovereignty was undermined. See *National Collegiate Athletic Association v. Board of Regents of the University of Oklahoma*, 468 U.S. 85, 107 (1984) (“A restraint that has the effect of reducing the importance of consumer preference in setting price and output is not consistent with this fundamental goal [to protect consumer welfare] of antitrust law.”). Output harm was not likely. Also, in tie-in cases governed by the qualified *per se* rule, forcing consumers to buy something that they might otherwise choose not to buy may be a recognized harm, as language in *Jefferson Parish Hospital District No. 2 v. Hyde* seems to state.¹² See also *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985) (Section 2 violation where defendant reduced number of ski areas in all-Aspen ticket package from four to three.)

PRINCIPLE VII-5 **There may be anticompetitive conduct and resulting antitrust harm that is not, or is not directly, consumer harm; e.g., exploitation of producers or middlemen through buying cartels or monopsonistic joint ventures.**

COMMENT

While usually competitive harm is consumer harm, in some cases a defendant’s conduct hurts market competition in some other way.

In *Telecor Communications, Inc. v. Southwestern Bell Telephone Company*, the Tenth Circuit rejected Southwestern Bell’s argument that monopsonistic conduct is not actionable unless it “injures consumers by forcing up the price of the end product.” *Telecor Communications, Inc. v. Southwestern Bell Telephone Company*, 305 F.3d 1124, 1133-1134 (10th Cir. 2002). In support of its opinion, the court cited Judge Posner’s observation in *Khan v. State Oil Co.* that monopsony pricing is analytically the same as monopoly or cartel pricing and treated as such by the law, and noted that “[t]he Supreme Court’s treatment of monopsony cases suggests that suppliers [] are protected by antitrust laws even when the anticompetitive activity does not harm end-users.” *Id.* at 1134 citing *Khan v. State Oil Co.*, 93 F.3d 1358, 1361 (7th Cir. 1996).

Also the court assumed that monopsonistic practices will ultimately harm consumers, *id.* at 1135-1136, as have other courts. See *Addamax Corporation v. Open Software Foundation, Inc., et al.*, 888 F. Supp 274 (D. Mass. 1995).

Basic economic theory supports this view. Harm to the end users may be presumed from the dead-weight loss associated with the imposition of monopsony pricing restraints. “Some producers will either produce less or cease production altogether, resulting in less-than-optimal output of the product or service, and over the long run higher consumer prices, reduced quality, or substitution of less efficient alternative products.”¹³

PRINCIPLE VII-6 **Unreasonable, unjustified foreclosure may be harm to competition; but courts must take care that they are protecting the market and not competitors.**

COMMENT

Courts and scholars disagree as to whether there are only “outcome harms” - *e.g.*, the conduct lessens output and decreases consumer surplus - or whether there are also dynamic and process harms - *e.g.*, a dominant firm blocks the market by unjustified conduct but prices will not necessarily rise.

12. *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 15 (1984) (*E.g.*, “And from the standpoint of the consumer-whose interests the statute was especially intended to serve-the freedom to select the best bargain in the second market is impaired by his need to purchase the tying product, and perhaps by an inability to evaluate the true cost of either product when they are available only as a package.”). It should be noted, however, that other language in the decision can be read as going the other way on this point. In addition, the qualified *per se* rule is under pressure; see Principle VI-10.

13. *Telecor*, 305 F.3d at 1136 citing Herbert Hovenkamp, *Economics and Federal Antitrust Law* Section 1.2 at 17-18 (1985); see also Roger D. Blair & Jeffrey L. Harrison, *Monopsony* 36-43 (1993). On the other hand, bargaining for lower input prices without restricting output is not an exercise of monopsony power and can result in lower prices to final consumers.

The diverging opinions generated by the Seventh Circuit in *Fishman v. Wirtz* exemplify this debate. *Fishman v. Wirtz*, 807 F.2d 520 (7th Cir. 1986). In that case plaintiffs lost their bid for the Chicago Bulls to defendants (after having initially won the contract) due to the defendant stadium owners' preemption of the (only) stadium. *Id.* The court found blockage of the right to compete for the market (the stadium) to constitute injury to competition and violate the antitrust laws. It said the "antitrust laws are concerned with the competitive process, and their application does not depend in each particular case upon the ultimate demonstrable consumer effect."¹⁴ The court held that the Sherman Act protects competition to acquire a natural monopoly.¹⁵ Judge Easterbrook dissented. Because the conduct in question -- preemption of the right to compete for the Chicago Bulls by preempting control over the only stadium -- did not affect price or quality, Judge Easterbrook considered it a "non-event" as far as antitrust was concerned. He would limit antitrust law to "results harmful to consumers." *Id.* at 564.

Thus, according to the majority in *Fishman*, where competition is for the market, unjustifiable foreclosure of the right to compete for the market is harm to competition.

Other cases also protect against harm to the dynamic aspects of the competitive process. In *FTC v. Indiana Federation of Dentists*, the insurance companies requested dentists to submit x-rays with insurance claims so that the insurers could detect unnecessary procedures and hold down their costs. *Indiana Federation of Dentists*, 476 U.S. 447 (1986). The dentists concertedly refused to comply. The FTC found the concert illegal, and the Supreme Court agreed. It equated the insurers with the consumers, and found a violation even though no "outcome" harm was shown. The dentists' concerted action was "likely enough to disrupt the proper functioning of the price-setting mechanism of the market The Federation is not entitled to pre-empt the workings of the market by deciding for itself that its customers do not need that which they demand." *Id.* at 461-462.

PRINCIPLE VII-7 Whether a plaintiff must prove actual or potential harm to competition depends on the nature of the plaintiff's cause of action.

COMMENT

For Sections 3 and 7 of the Clayton Act, the violation is based on a prediction that competition may be lessened in the relevant product market. It is often said that plaintiff must prove as a matter of "reasonable probability" that the harm (usually a price rise) will result, e.g., from a merger. *See FTC v. H.J. Heinz Co.*, 246 F.3d 708, 713, 719 (D.C. Cir. 2001). "Section 7 does not require proof that a merger has caused higher prices or other actual harm. All that is necessary is that the merger create an appreciable danger of such consequences in the future. A predictive judgment, necessarily probabilistic and judgmental rather than demonstrable . . . is called for." *See Hospital Corp of Am v. FTC*, 807 F.2d 1381, 1389 (7th Cir. 1986).

For Sherman Act Section 1 and 2 cases the type of proof required is "an inquiry meet for the case." *California Dental Ass'n v. FTC*, 526 U.S. 756, 758 (1999). Thus, if the facts "give rise to an intuitively obvious inference of anticompetitive effect [e.g. output limitation]," the plaintiff makes its prima facie case and the conduct is illegal absent a procompetitive justification.¹⁶ Accordingly, the nature of the conduct, in its context, may be sufficient proof of competitive harm. The plaintiff need not prove consumer harm directly.¹⁷

14. On the basis, however, that a healthy and unimpaired competitive process is presumed to be in the consumer interest. *Id.* at 536.

15. *Id.* citing *Havoco of America, Ltd. v. Shell Oil Co.*, 626 F.2d 549, 558 (7th Cir. 1980) (relevant question is whether restraint promotes or suppresses competition). The court stated that defendants had committed a classic violation of the antitrust laws by using a monopoly in one market to foreclose competition in another, and reasoned that "[a] rule that made the legality of arguably predatory conduct at one level of entry into the consumer market depend on whether *post hoc* analysis could clearly identify adverse impacts on ultimate consumers would be capricious, as well as unjust." *Id.* at 537.

16. *Id.* at 780-81. *See also* concurring and dissenting opinion of Justice Breyer, joined by Justices Stevens, Kennedy and Ginsburg, to whom "genuine adverse [competitive] effects" from dentists' privately-agreed price and quality advertising restraints were more readily apparent than they were to Justices Souter, Scalia, Thomas, Rehnquist and O'Connor.

17. *See* Principle VII-8 *infra* and particularly the *Microsoft* case, wherein proof of monopoly power, significant foreclosure, and specific intent were sufficient.

PRINCIPLE VII-8 As noted, the most common theory of harm to competition is price rise or output limitation. In some cases, burden-shifting presumptions of a price rise or output limitation are economically or legally appropriate. This is the case in the event of a monopolist's imposition of serious and apparently unjustified exclusionary practices.

COMMENT

Exclusive contracts and other conduct that has exclusionary effects may be procompetitive or anticompetitive. It may reduce parties' costs, create new products, reduce a manufacturer's costs of maintaining the reputation and quality of its products after title and control have passed to the purchaser, or prevent free-riding by competitors. On the other hand, it may be a part of a strategy for acquiring market power. See Thomas G. Krattenmaker & Steven C. Salop, *Anticompetitive Exclusion: Raising Rivals' Costs to Achieve Power Over Price*, 96 Yale L.J. 209, 228-229 (December 1986). According to Professors Krattenmaker and Salop: "[C]laims of anticompetitive exclusion should be judged according to whether the challenged practice places rival competitors at a cost disadvantage sufficient to allow the defendant firm to exercise monopoly power by raising price." *Id.* at 214.

Many cases turn on the question of whether the exclusionary contracts or other practices at issue are a strategy to raise price, and, if so, whether they are reasonably likely to do so. In *United States v. Dentsply*, 277 F. Supp. 2d 387 (D. Del. 2003), *rev'd*, 399 F.3d 181 (3d Cir. 2005), the lower court took a view of the facts particularly sympathetic to a dominant firm that purposely tied up almost all dealers with the hope of blocking competitors, and found that the competitors could nonetheless bypass the Dentsply phalanx and that the Department of Justice had fatally failed to "establish[] a market of supracompetitive pricing." *Id.* at 453. On appeal, however, the Third Circuit had little trouble finding an unlawful exercise of monopoly power in violation of Section 2, reversed the lower court, and directed entry of judgment for the government.

Other courts have also taken a legal stance sympathetic to the plaintiff. In *Microsoft*, for example, the D.C. Circuit found that Microsoft's exclusionary practices sufficiently threatened to harm competition and innovation, even though the government had not proved that competition would probably have eroded Microsoft's monopoly position but for its intentional and unjustified exclusionary practices. It was enough that, in this action by the government, Microsoft engaged in significant and unjustified exclusionary practices and its intent was to protect its monopoly position by shooting down the approaching potential competitors and thus disabling them from the opportunity to try.¹⁸

The approach of the D.C. Circuit in *Microsoft* has proved attractive to other courts confronted with practices of a monopolist intended to exclude rivals, notwithstanding the absence of demonstrable market effects. Thus, in *LePage's Incorporated v. 3M*, 3M, with more than 90% of the market for brand-name transparent tape, in response to Le Page's innovation of competitive cheap tape, launched a fighting brand and offered bundled rebates across several products to large customers -- an offer they could not refuse. *LePage's Incorporated v. Minnesota Mining and Manufacturing Company*, 324 F.3d 141 (3d Cir. 2003), *cert. denied*, 124 S. Ct. 2932 (2004). The court held the bundled rebates exclusionary and illegal, apparently primarily for their exclusionary effect and their consequent undermining of the pioneering rival's competition on the merits. Secondly, the court stated, apparently without record evidence, that prices were likely to rise. *Id.* at 159.

As a best practice in the case of serious, unjustified exclusionary harms, courts should either seek actual evidence of an appreciable chance of price rise, or should require record evidence that supports a conclusion that increased future prices are more probably than not going to result from the exclusionary conduct. Courts should refrain from "concluding" that prices will probably rise in the "long run" when the record does not support this claim.

18. See Eleanor M. Fox, *What Is Harm To Competition? Exclusionary Practices and Anticompetitive Effect*, 70 Antitrust L.J. 371 (2002). Fox interpreted the Microsoft case to hold: "Conduct that intentionally, significantly and without business justification excludes a potential competitor from outlets, where access to those outlets is a necessary though not sufficient condition to waging a challenge to a monopolist and fear of challenge prompts the conduct, is 'anticompetitive.'"

At the other extreme, courts should dismiss cases where the challenged practice is likely on balance to be good for consumers. In the middle ground, harm to competition from unjustified blocking of rivals' best routes to the market should not be ruled out. The *Microsoft* approach is wise practice.

PRINCIPLE VII-9 In cases of mergers of significant competitors in concentrated markets leading to significant increases in concentration, the Philadelphia National Bank presumption shifts the burden of going forward to defendants; the burden of persuasion stays with plaintiffs. The presumption is not necessarily reflective of a logical inference, and courts using the presumption should be receptive to evidence that the merger does not harm competition.

COMMENT

In general, to establish a Section 7 violation, a plaintiff must show that a pending acquisition is reasonably likely to cause an anticompetitive effect in the relevant market. *United States v. Oracle Corporation*, 331 F. Supp. 2d 1098 (N.D. Cal. 2004) citing *United States v. Penn-Olin Chem. Co.*, 378 U.S. 158, 171 (1964). In *United States v. Philadelphia Nat'l Bank* ("PNB"), the Supreme Court devised essentially a market share and concentration figure burden-shifting approach to assessing the legality of particular horizontal transactions. *United States v. Philadelphia Nat'l Bank* ("PNB"), 374 U.S. 321 (1963). A rule of "presumptive illegality" was applied in that case, in which the merger caused a "significant increase in the concentration of firms" and produced a surviving firm with an "undue percentage share" of the market. *Id.* at 363.

According to the court in *United States v. Oracle Corporation*, the PNB rule should be applied as follows: once the market is defined, the inquiry is whether there is a "level of concentration sufficient" to trigger the presumption "that the proposed transaction will lead to a substantial lessening of competition under the principles set forth in the Horizontal Merger Guidelines." *Oracle*, 331 F. Supp. 2d at 1108, 1110 (N.D. Cal. 2004). A significant trend toward concentration creates a presumption that the transaction violates Section 7. *Id.* citing *United States v. Baker Hughes Inc.*, 908 F.2d 981, 982-983 (D.C. Cir. 1990). The defendant may rebut the presumption by showing that the market-share statistics do not accurately depict the merger's probable effects on competition in the relevant market. *Id.* citing *FTC v. H.J. Heinz Co.*, 246 F.3d 708, 715 (D.C. Cir. 2001).

In *FTC v. H.J. Heinz Co.*, the court laid out "the analytical approach by which the Government establishes a Section 7 violation," relying on *Philadelphia Nat'l Bank*. "First the Government must show that the merger would produce 'a firm controlling an undue percentage share of the relevant market, and [would] result [] in a significant increase in the concentration of firms in that market.'" *Id.* "Such a showing establishes a 'presumption' that the merger will substantially lessen competition." *Id.* Then, "to rebut the presumption, the defendants must produce evidence that 'show[s] that the market-share statistics [give] an inaccurate account of the [merger's] probable effects on competition' in the relevant market." If the defendant is able to rebut the presumption of illegality successfully, "the burden of producing additional evidence of anticompetitive effect shifts to the Government, and merges with the ultimate burden of persuasion, which remains with the Government at all times." *Id.*, quoting from *United States v. Baker Hughes, Inc.*, 908 F.2d 981, 983 (D.C. Cir. 1990).

Affirmative cases of presumed illegality have been overcome by a variety of countervailing factors, including the inability to obtain needed raw materials, technological weaknesses relative to competitors, low entry barriers presenting a threat to incumbents, and other market evidence establishing that the statistics do not form a good proxy for predicting the future, or otherwise that the challenged acquisition is unlikely substantially to lessen competition. See *United States v. General Dynamics Corp.*, 415 U.S. 486 (1974); *Marine Bancorp*, 418 U.S. 602; *Heinz*, 246 F.3d at 708; *AlliedSignal Inc. v. B.F. Goodrich Co.*, 183 F.3d 568 (7th Cir. 1999); *Dr. Pepper/Seven-Up Cos. v. FTC*, 991 F.2d 859 (D.C. Cir. 1993); *Olin Corp. v. FTC*, 986 F.2d 1295 (9th Cir. 1993). If the defendant successfully rebuts the presumption of illegality, the burden of producing additional evidence of

anticompetitive effects shifts to the plaintiff, and merges with the ultimate burden of persuasion, which remains with the plaintiff at all times. See *United States v. Baker Hughes Inc.*, 908 F.2d 981, 983 (D.C. Cir. 1990).

While the *PNB* presumption is still customarily used in merger analysis, the presumption is not a logical economic inference, and with economics eclipsing earlier socio-political concerns, the *PNB* presumption has been called into question. See Robert H. Lande & James Langenfeld, *From The Surrogates To Stories: The Evolution Of Federal Merger Policy*, 11 *Antitrust* 5 (Spring 1997). Professor Robert Lande points out that every merger involves different competitive circumstances that can affect whether the merger is likely to reduce competition. He argues that the “traditional” approach of *PNB* has many problems, *id.*, including the weight it puts on the choice of a market definition.¹⁹

Also, the “conventional approach can lead to little predictability in ‘heterogeneous’ or ‘differentiated’ markets composed of products with substantially different features and prices, such as automobiles, or with significant brand distinction and (arguably) less product differences, such as bath tissues. This problem can be serious because one can almost always find enough differences in products to make an argument that any market is heterogeneous.” *Id.*

For instance, in *U.S. v. Oracle*, the court noted that “strong presumptions based on mere market concentration may be ill-advised in differentiated products unilateral effects cases” and observed that without analysis beyond market concentration, a presumption that a firm controls a certain market share is generally misleading. *Oracle*, 331 F. Supp. 2d at 1121-1122 *citing* Roscoe B. Starek III & Stephen Stockum, *What Makes Mergers Anticompetitive?: “Unilateral Effects” Analysis Under The 1992 Merger Guidelines*, 63 *Antitrust* L.J. 801, 804 (1995).

In view of its weaknesses, the *PNB* presumptive approach “has eroded over time.” Lande & Langenfeld, *supra* note 54. Its vitality may lie not in analytical substance but administrative efficiency. As a legal presumption, it puts the burden on the parties that know the most.

When the presumption is used, courts should be receptive to evidence of the parties that the merger does not harm competition.

PRINCIPLE VII-10 In tying cases applying the qualified *per se* rule, defendants may defend by showing a good business justification.

COMMENT

Under the traditional rule, if a plaintiff proves use of market power in a tying product to force buyers to purchase a separate tied product affecting a not insubstantial amount of commerce, the conduct is illegal *per se*. This qualified *per se* rule is not robust. It was adopted at a time of popular understanding that tying virtually never has a good business justification. Over time, there has been recognition that even a monopolist may use a tying arrangement for an efficient purpose.

In her concurring opinion in *Jefferson Parish*, Justice O’Connor advocated the abandonment of *per se* treatment for tying and the requirement that competitive harm in the relevant market -- usually the market of the tied product -- be proved. *Jefferson Parish*, 466 U.S. at 33-35.

In *Microsoft* the court said that software platform tie-ins were appropriately treated under the rule of reason because there had not been enough experience to consider them anticompetitive *per se*. People might prefer a package of software, and developing packages might be an efficient mode of business. *Microsoft*, 253 F.3d at 84-95.

19. *Id.* For instance, albeit not a merger case but exemplary nonetheless, in *Eastman Kodak Co. v. Image Technical Services, Inc.*, the narrow market definition accepted by the Court was for a single brand market consisting of repair services on Kodak’s own line of equipment. In assessing the case based on this narrow market, the Court found it reasonable to infer market power in the aftermarket, and refused to dismiss the independent services operators’ claim that Kodak illegally monopolized Kodak imaging machine repair parts and aftermarket service.

Moreover, in *Verizon v. Trinko*, the Supreme Court rejected “monopoly leveraging” as a violation, noting that mere leveraging does not imply an increase in market power, such as by monopolizing the target market, and stating that dangerous probability of monopolizing the second market is a necessary element of the violation. *Trinko*, 124 S.Ct. at 883, n.4. Tie-ins are a subset of leveraging.

Tie-ins by definition block firms from contesting market segments on their merits, override consumer choice, and, some would argue, are almost never necessary to achieve efficiencies. The latter point, however, is deeply contested. It is appropriate, therefore, for courts to consider whether, in particular situations, there has not been sufficient experience to condemn tie-ins *per se* and to apply a rule of reason, as in *Microsoft*; and in any event to admit efficiencies and other good business justifications.

PRINCIPLE VII-11 *In per se cases, although the government need not prove competitive harm, private plaintiffs must show standing and antitrust injury, which generally require a showing that the plaintiffs’ injuries are the result of injury or harm to competition.*

COMMENT

Per se offenses are presumed to restrict competition unreasonably because they are generally believed to lead to higher prices and reduced output.

Private plaintiffs, however, must have standing to bring their cases and must show that they have suffered antitrust injury.

The basic rule for antitrust injury comes from *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. at 489, which held that a private plaintiff seeking injunctive relief under Section 4 of the Clayton Act must show a threat of injury “of the type the antitrust laws were designed to prevent and that flows from that which makes defendants’ acts unlawful.” Injury to businesses from competition itself (which plaintiffs suffered) is not antitrust injury.

The need to prove injury from the anticompetitive aspect of the conduct applies to *per se* and non *per se* cases alike. Resale price maintenance is a good example of a *per se* violation wherein private plaintiffs’ burdens could effectively turn the case into a rule of reason case. Resale price maintenance agreements are likely to cause competitive harm when they facilitate a cartel or cartel-like behavior. The vertical price-fixing prevents retailers from passing on lower prices to consumers and therefore reduces the manufacturer’s incentive to cheat on a manufacturer-level cartel. Richard A. Posner, *Antitrust Law* 172-173 (2d ed., The University of Chicago Press 2001) (1976). However, resale price maintenance may be used in situations not conducive to cartels. It can enhance competition; e.g., by providing a means for a producer to enhance service competition among its distributors and thereby to offer better interbrand competition. As Professor Lester Telser demonstrated nearly half a century ago, manufacturers can use resale price maintenance to stimulate non-price competition among retailers. Lester Telser, *Why Should Manufacturers Want Fair Trade?*, 3 J.L. & Econ. 86 (1960).

If the defendant has used resale price maintenance to compete rather than to cartelize, there has been no market harm, no supracompetitive overcharge, and no antitrust injury.

These observations could, of course, ultimately affect whether courts will further erode the *per se* rule against resale price maintenance.

CHAPTER VIII. MARKET DEFINITION

INTRODUCTION

In most types of antitrust cases, including monopolization and attempted monopolization cases, merger cases, and most single firm non-*per se* conduct cases, courts have required plaintiffs to define relevant markets.¹

When market definition is properly done, parties and courts confront directly the constraints under which firms operate in attempting to exercise alleged market power.² Firms are more or less constrained by the actions of customers and rivals, and it is the principal function of the market definition exercise to have the parties consider and evaluate the extent to which these constraints are present.

To be sure, it is also the case that markets are defined often to fix the boundaries within which market shares can be determined. These shares are then viewed as suggesting, with more or less accuracy, the ability of a firm to exercise market power, which can be a way of indicating its ability to be free of market imposed constraints. The purpose of determining market shares is to explore the extent to which a firm operates with fewer or greater constraints; and it is for this reason that market shares are considered relevant for firm behavior.

PRINCIPLE VIII-1 **Market definition should undertake to identify the products that constrain the exercise of market power by the firm or firms whose conduct is being examined.**

COMMENT

The exercise of defining relevant markets should emphasize the critical question to be asked, which is the extent to which firms are effectively constrained by external factors. Because these constraints generally come in different varieties and strengths, one should not expect there to be a single bright-line answer to a market definition question. In many cases, there may be various lines or boundaries that could be set, and the relevant issue is then how alternative market boundaries can be used to identify the actual constraints that firms encounter. One ought to resist the temptation to define “markets” as businessmen or industry observers use the term. While one should never ignore what people in the business think, they are not using “market” as an antitrust term of art, and often use “markets” as a way of categorizing products rather than in terms of constraints on a particular firm.

Constraints may be of different significance depending on the type of competitive harm that is alleged. For example, a theory of collusion among several relatively small firms might require consideration of all firms that could replace some of the lost output, while if the alleged harm is one of unilateral effects in a differentiated products market, identification of fringe competitors (and a delineation of a market to include or exclude them) might be less essential.

1. In some other horizontal coordination cases, courts and agencies have felt comfortable dispensing with market definition or market power analysis, particularly where the conduct at issue involved direct or “naked” restraints on price or output. *See, e.g., NCAA v. Board of Regents*, 468 U.S. 85 (1984); *FTC v. Indiana Fed’n of Dentists*, 476 U.S. 447 (1986); *Polygram Holding, Inc.*, FTC Docket No. 9298 (2003); *but see California Dental Ass’n v. FTC*, 526 U.S. 756 (1999).

2. It is never a good idea to assume without analysis that the appropriate market is the area of business in which the *plaintiff* operates. Although this might be appropriate if it were the plaintiff whose market power were in question, it is not appropriate when the defendant operates in other areas that may constrain its actions and prices in the area of the plaintiff. For example, in a case brought by the St. Louis Convention Center against the NFL involving the move of the Los Angeles Rams to St. Louis, the plaintiff alleged a market for stadiums built to NFL standards. *St. Louis Convention & Visitors Comm’n v. National Football League*, 46 F. Supp. 2d 1058 (E.D. Mo. 1997), *aff’d*, 154 F.3d 851 (8th Cir. 1998). That would be appropriate if one were examining the options open to the NFL as a buyer, but it is far too narrow when considering the alternatives open to stadium builders who can turn their resources to other things.

PRINCIPLE VIII-2 Properly identifying constraints on market power depends on whether the concern about market power is prospective or retrospective, which determines what prices should be employed in defining and analyzing effects in the relevant market.

COMMENT

In Section 2 actions and Section 1 rule of reason actions, a threshold issue is whether the defendant already possesses market or monopoly power, and market definition is used in such cases largely to help answer this threshold question. The retrospective market power inquiry in such cases can fall into the so-called “*Cellophane* trap”³ by assessing constraints on market power after it already has been exercised and failing to recognize that such constraints became operative only after significant market power had been exercised by raising price well above the competitive level. In such cases, these supracompetitive prices should not be used as the basis for a relevant market analysis that looks for substitute products at prevailing price levels. This will avoid defining the market too broadly and understating the defendant’s market power.

The *Cellophane* trap does not arise, however, in cases involving a strictly prospective market power inquiry. Market definition in such cases is used to help determine whether proposed or ongoing conduct could lead to the exercise, or enhanced exercise, of market power, for example as a result of a proposed merger. Some Sherman Act cases also involve a prospective market power inquiry, for example a challenge to a practice recently adopted by the defendant that may create or enhance market power, where such an effect has not yet been achieved.

The *Cellophane* trap can arise in a merger case if the merger has been consummated, and it can arise even with proposed mergers. The reason is that the competitive harm threatened by the merger may be the prevention of price decreases that otherwise would occur when market power currently is being exercised. An important scenario in which that could be the case involves an industry experiencing ongoing pricing coordination. The theory of competitive harm in such a case could be that the lessening of competition resulting from the proposed merger would prevent the weakening or collapse of the ongoing pricing coordination.⁴ If so, the relevant price level at which to assess constraints is the level to which prices might fall.

PRINCIPLE VIII-3 Courts should be receptive to evidence of supply constraints as well as to evidence of demand constraints.

COMMENT

Because competitive constraints can be present on both the demand and supply sides of the market, courts should be willing to receive evidence of both supply and demand side factors. In earlier literature, the approach was to examine cross elasticities of demand and supply, which reflect the extent to which demand and supply respond to a price change.⁵ See, e.g., Carl Kaysen and Donald F. Turner, *Antitrust Policy*, 1959, pp. 27-28. More recently, the Merger Guidelines published since 1982 have applied a somewhat different approach. In section 1.0 the current *Horizontal Merger Guidelines* state:

Market definition focuses solely on demand substitution factors-i.e., possible consumer responses. Supply substitution factors-i.e., possible production

3. *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377 (1956). Du Pont was the only manufacturer of transparent flexible wrapping materials, and had raised the price of that product to the point where other (non-transparent) flexible wrapping materials constrained further price increases. In defining the relevant market as “all flexible wrapping materials” the Court fell into the trap of evaluating constraints on market power after it already had been fully exercised. Rather, the Court should have asked to what extent du Pont had been able to raise price above competitive levels because it was the only manufacturers of transparent flexible wrapping materials.

4. In section 1.11, the *Horizontal Merger Guidelines* address the *Cellophane* trap in the hypothetical monopolist test as follows: “[T]he Agency will use prevailing prices of the products of the merging firms and possible substitutes for such products, unless premerger circumstances are strongly suggestive of coordinated interaction, in which case the Agency will use a price more reflective of the competitive price.”

5. In *Greyhound v. IBM*, 559 F.2d 488 (9th Cir 1977), the plaintiff alleged a market consisting only of leased computers, with sold computers excluded. (Computer leasing was the business that Greyhound was in.) The Court of Appeals overturned a directed verdict in IBM’s favor at least partly on the ground that a jury could reasonably have found such a market. This approach, however, overlooked the obvious point that any seller of computers could have turned to leasing them with a stroke of the pen.

responses-are considered elsewhere in the Guidelines in the identification of firms that participate in the relevant market and the analysis of entry.

Under the current Guidelines, supply side constraints are not evaluated under the rubric of defining the relevant market, but rather primarily under the rubric of “identification of firms that participate in the relevant market.” Under the Guidelines, some incumbent competitors in the relevant market “participate through supply response.” These firms may possess assets that could be shifted or extended into production and sale of a relevant product, or perhaps they could be acquired and put into production within one year and without incurring significant sunk costs. Both the Guidelines’ approach and the more traditional approach may be employed by the parties in their proof, or by the court in its consideration of constraints on the exercise of market power.

PRINCIPLE VIII-4 If anticompetitive effects can be proven or predicted with sufficient certainty, it should not be necessary in an antitrust (merger or conduct) case to prove a product and geographic market, or market share in a relevant market. It is nonetheless ordinarily important to identify the area of competition affected by the merger or conduct, so that the competitive constraints by all relevant products and firms can be identified and analyzed.

COMMENT

This Principle states the law under Sherman Act Section 1 and FTC Act Section 5, jurisprudence, as reflected in *FTC v. Indiana Fed’n of Dentists*, 476 U.S. 447 (1986), and *NCAA v. Board of Regents*, 468 U.S. 85 (1984). The Principle also should be valid in merger cases. Clayton 7’s requirement that competition be lessened in a “line of business” and “section of the country” does not necessarily require the plaintiff to prove a structural (rather than a direct-effects) case. It would be anomalous, in light of criticisms of the structure-conduct-performance paradigm, to insist on proof of market structure in all cases. Nonetheless, this Principle should be applied cautiously, recognizing the need to prove (likely or actual) anticompetitive effects with sufficient certainty in the absence of proof of market definition.

Following *Indiana Fed’n of Dentists* and *NCAA*, many Section 1 cases have approved reliance on direct proof of anticompetitive effects in lieu of relevant market analysis. *E.g.*, *Todd v. Exxon Corp.*, 275 F.3d 191, 206 (2d Cir. 2001) (“If a plaintiff can show that a defendant’s conduct exerted an actual adverse effect on competition, this is a strong indicator of market power. In fact, this arguably is more direct evidence of market power than calculations of elusive market share figures.”); *Toys R Us v. FTC*, 221 F.3d 928, 937 (7th Cir. 2000) (One “way [] of proving market power . . . is through direct evidence of anticompetitive effects”). A few courts actually have relied on direct evidence of market or monopoly power in reaching decisions. *E.g.*, *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 477, 468-71 and n.15 (1992) (relying on “direct evidence” that Kodak “raise[d] price and dr[ove] out competition” to establish Kodak’s market power); *Rel/Max Int’l, Inc. v. Realty One, Inc.*, 173 F.3d 995, 1016-19 (6th Cir. 1999) (reversing summary judgment based on structural analysis and instead relying on direct evidence of monopoly power).

Of course, merger cases raise rather different issues from Section 1 cases, because there can be no direct proof of anticompetitive effects from conduct that has not occurred, as is the situation in the vast majority of merger cases. To date, no court has endorsed the dispensing of market delineation in merger cases, and controlling, albeit somewhat elderly, Supreme Court precedent still appears to mandate market delineation. Nonetheless, economists have developed methods for assessing unilateral effects in merger cases without delineating markets, and requiring delineation of markets in such cases can entail drawing artificial lines where none exist or are needed. Thus, even in merger cases, courts should be receptive to evidence showing direct evidence of anticompetitive effects as a supplement to, or even in lieu of, market definition.

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LIMITS ON PATENTABILITY IN LIFE SCIENCES: CLAIMS COVERING EXPRESSED SEQUENCE TAGS

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I. INTRODUCTION

In June 1991, scientists from the U.S. National Institutes of Health (NIH) published a research paper detailing the discovery of short genetic sequences that could be used to find and map specific genes, and to explore gene functions, in a remarkably rapid and cost-effective manner.¹ Terming their new discovery “expressed sequence tags” (ESTs), the NIH scientists boldly predicted that ESTs would revolutionize the field of genetics by facilitating “the tagging of most human genes in a few years at a fraction of the cost of complete genome sequencing,” by providing “new genetic markers,” and by serving “as a resource in diverse biological research fields.”²

Those predictions, though wildly aggressive, ultimately proved to be true. Today, the discovery of ESTs is widely credited for completion of the Human Genome Project significantly ahead of schedule and well below budget.³ ESTs now serve as standard laboratory research tools that are frequently employed by geneticists to probe and explore the genomes of a variety of organisms.⁴ The critical importance of ESTs is further underscored by the explosive growth of a commercial industry premised on the usefulness of ESTs. Over the last decade, sophisticated entities and individuals have dedicated hundreds of millions of dollars to locate and organize ESTs into libraries, and to license databases of ESTs discovered by others.⁵

Despite the obvious and considerable value of ESTs to the field of genetics, a fierce controversy surrounding the patentability of ESTs has raged from the start. Those hoping to protect their significant investment in developing ESTs by securing patents have faced stiff opposition grounded in a variety of moral, social, economic, and scientific concerns.⁶ Opponents, however, are far from united in their proposed treatment of ESTs. For example, some contend that ESTs should be dedicated to the public domain and placed entirely outside the scope of patent protection. Others join in opposing the patenting of ESTs, but instead propose that ESTs should receive protection under non-patent forms of intellectual property (e.g., copyright law or forced registration and licensing schemes).⁷

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1 See M.D. Adams et al., *Complementary DNA Sequencing: Expressed Sequence Tags and Human Genome Project*, SCIENCE, June 21, 1991, at 1651.

2 *Id.*

3 When the Human Genome Project started in 1990, experts estimated that the project would be completed by the end of 2005 at a cost of \$3 billion. The project ultimately concluded in April 2003 - two and a half years ahead of schedule and \$300 million under budget. See Press Release, National Human Genome Research Institute, International Consortium Completes Human Genome Project (Apr. 14, 2003), http://www.ornl.gov/sci/techresources/Human_Genome/project/50yr/press4_2003.shtml.

4 See *infra* Section II(B)-(C).

5 See *infra* Section VI(C).

6 See *infra* Section III(A)-(B).

7 See *infra* Section III(C).

Those supporting the patenting of ESTs are equally divided. Some supporters maintain that ESTs should be subjected to the same patentability standards, and afforded the same patent rights, as any other new, useful, and nonobvious invention. Meanwhile, other proponents argue that EST patents should issue, but only after meeting heightened patentability requirements or with fewer rights than afforded to other types of patented inventions (e.g., claims with limited scope, duration, and/or enforcement rights).⁸

Notwithstanding more than a decade of heated debate, Congress and the courts have done nothing to preclude, limit, or otherwise affect the patenting of ESTs. In 2001, however, the U.S. Patent and Trademark Office (PTO) placed itself at the center of the EST debate by issuing Utility Examination Guidelines that announced a new heightened standard for utility under 35 U.S.C. Section 101.⁹ On its face, the new, more stringent standard purports to apply to all inventions. In practice, however, the PTO has applied a heightened utility standard to EST patent applications, while continuing to judge the utility of other inventions under a more lenient test. This result should come as little surprise. From the start, the PTO openly has conceded that it raised the utility bar solely to preclude the patenting of most ESTs.¹⁰ That policy has achieved its intended purpose - the PTO's newly crafted utility standard has all but halted the filing and issuance of patents covering ESTs.¹¹

The PTO's unilateral attempt to bring an end to this long-standing controversy through the uneven application of the utility standard finds no support in the plain language or legislative history of the patent laws, or in the decisions of the courts. Rather, those statutory and judicial sources make clear that the standard for utility under 35 U.S.C. Section 101 is a minimal one that is fixed by law and made applicable to *all* inventions - including ESTs. Simply put, the PTO lacks the authority to impose a heightened utility requirement, or to apply that requirement selectively to some inventions, but not to others.¹² If the utility standard is to be elevated for any particular category of inventions, it is Congress that should do it.

When properly applied, the utility requirement established by Section 101 in no way precludes the patenting of ESTs - to the contrary, *all* ESTs are inherently capable of meeting the minimal threshold of utility established by the statute. As a matter of scientific truth, *every* EST can be used as a research tool to provide the public with a host of specific, substantial, and commercially valuable benefits. This is all that the minimal utility requirement of 35 U.S.C. Section 101 demands.¹³

II. WHAT ARE EST'S?

A. Basic Principles of Molecular Genetics¹⁴

Proteins are essential to the proper growth, development, and function of every life form. For example, in humans, proteins are responsible for a wide variety of critical functions ranging from routine (e.g., fingernail and hair growth) to complex (e.g., processing nutrients, controlling muscle function, and stimulating brain activity).¹⁵ Failures in the protein-generation process can result in serious problems, including improper development, disease, and even death.

⁸ See *id.*

⁹ See Utility Examination Guidelines, 66 Fed. Reg. 1092-99 (2001).

¹⁰ See Molly A. Holman and Stephen R. Munzer, *Intellectual Property Rights in Genes and Gene Fragments: A Registration Solution for Expressed Sequence Tags*, 85 IOWA LAW REV. 735, 759 ("[A high-ranking PTO official] has clarified to us that the intended impact of the Revised Utility Examination Guidelines on EST applications is to heighten the utility requirement . . .").

¹¹ See Jennifer Van Brunt, *Next Move in the Patent Game*, SIGNALS MAGAZINE, at <http://www.signalsmag.com/signalsmag.nsf/657b06742b5748e888256570005cba01/5bfff0c004db8303f88256a390080aa36?OpenDocument&Hlglight=0,EST> (Apr. 26, 2001) (noting that the initial flood of patent applications on ESTs decreased dramatically beginning around the time the PTO issued interim Utility Guidelines in 1999 that were a precursor of the final Guidelines issued in 2001).

¹² See *infra* Section V.

¹³ This article is limited to a discussion of the utility requirement under 35 U.S.C. Section 101. It does not address whether ESTs are capable of satisfying the remaining requirements for patentability.

¹⁴ The Federal Circuit repeatedly has addressed many of the basic principles of molecular genetics set forth here. See, e.g., *In re Deuel*, 51 F.3d 1552, 1554-55 (Fed. Cir. 1995); *Angen, Inc. v. Chugai Pharm. Co., Ltd.*, 927 F.2d 1200, 1207-08 (Fed. Cir. 1991); *In re O'Farrell*, 853 F.2d 894, 895-99 (Fed. Cir. 1988).

¹⁵ See D. PETER SNUSTAD & MICHAEL J. SIMMONS, *PRINCIPLES OF GENETICS* 17-18, 77 (3d ed. 2003). Proteins play an equally important role in the development and daily functioning of other animals, as well as in plants and microorganisms. See *id.*

In recent decades, scientists have started to explore the complex genetic underpinnings of the intricate process used by various organisms to synthesize proteins. These efforts have resulted in a greater understanding of the genomes of hundreds of organisms, leading to the development of new disease-fighting drugs, genetically improved plants, and other important products. Efforts to explore and further understand the genomes of humans and other organisms continue today.

1. The Role of Chromosomes and Genes

The billions of cells found in the human body (as well as the cells of other life forms) are comprised largely of proteins. The specific proteins produced by the cells of an organism are determined by the genetic code, or genome, of the organism. This genetic information is chemically stored within the nucleus of each of the organism's cells in long, densely coiled strands of deoxyribonucleic acid (DNA) called "chromosomes." The number of chromosomes that reside within each cell varies by organism. For instance, a normal human cell contains twenty-three pairs of chromosomes, a maize plant cell contains only ten pairs, and baker's yeast contains sixteen chromosomes.¹⁶

The portion of a chromosome that contains the genetic coding information necessary to make a particular protein is called a "gene." Structurally, genes are comprised of several components, including: (1) regulatory regions that affect the "expression" (i.e., synthesis) of a particular protein; (2) exons, which are the coding sequences of a gene that serve as the template for protein expression; and (3) introns, which are non-protein-coding sequences that exist between exons. The number of genes also varies significantly between organisms. By way of example, human chromosomes contain 30,000 to 40,000 genes, maize plants contain about 50,000 genes, and baker's yeast contains about 6,000 genes.¹⁷

2. The Role of DNA

DNA acts as the blueprint for all protein-driven activities that are necessary for an organism to develop, grow, and live. DNA molecules are comprised of repeating units called nucleotides that link together into long strands. The four nucleotides found in DNA - adenine (A), guanine (G), cytosine (C), and thymine (T) - are called bases, and the particular order of the linked nucleotide bases is referred to as the DNA sequence.¹⁸

Each DNA molecule is comprised of two strands of nucleotide bases. The sequence of nucleotide bases found in one strand will "hybridize" (i.e., pair or bind) with the complementary sequence of nucleotide bases found in the other strand; adenine will hybridize with thymine (A-T), and guanine will hybridize with cytosine (G-C). This hybridization of nucleotide bases results in a two-stranded DNA molecule that takes the form of a twisting double helix. Because of the unique hybridization properties of the four DNA nucleotide bases, the known sequence of one strand can be used to predict the complimentary sequence of the other strand.¹⁹

The DNA sequence of a gene ("genomic" DNA) contains all of the coding information necessary to produce a particular protein. However, the entire sequence is not translated directly into protein. Rather, only the protein-coding regions (the exons) of the gene are used as a template for protein synthesis.²⁰ Within that protein-coding region, sequential groupings of three nucleotides called codons code for single amino acids, which are the building blocks of proteins. The sequence of codons determines the chain of amino acids in the resulting protein.²¹

16 See JEREMY M. BERG ET AL., *BIOCHEMISTRY* III-31.2 (5th ed. 2002), available at

<http://www.ncbi.nlm.nih.gov/books/bv.fcgi?call=bv.View.ShowSection&rid=stryer.section.4452>; Enrique Martinez-Perez & Graham Moore, *Promiscuous Maize Chromosomes*, *SCIENCE*, Jan. 2, 2004, at 49, 50.

17 See SNUSTAD & SIMMONS, *supra* note 15, at 277, 529; Edward R. Winstead, *Sizing Up the Genomes: Amoeba is King*, *GENOME NEWS NETWORK*, Feb. 12, 2001.

18 See SNUSTAD & SIMMONS, *supra* note 15, at 209-12.

19 See *id.* at 12-15. For example, human DNA is comprised of 3.12 to 3.15 billion nucleotide base pairs, maize DNA contains approximately 2.5 billion base pairs, and baker's yeast contains about 12 million base pairs. See KEVIN DAVIES, *CRACKING THE GENOME* 239-41 (2001); Katherine Miller, *The Challenges of Maize Genetics*, at <http://www.nutransposon.org/project/RescueMUI/zmdb/education/challenge.php> (last visited Oct. 7, 2004); Winstead, *supra* note 17. Interestingly, the microscopic *Amoeba dubia* has the largest known genome, spanning 670 billion base pairs - more than 200 times the size of the human genome. See *id.* In contrast, the HIV virus has less than 20,000 base pairs. See *id.*

20 See SNUSTAD & SIMMONS, *supra* note 15, at 292-99.

21 See *id.* at 320-27. The four DNA bases can be arranged into 64 possible codon combinations, three of which are termination codons that signal the end of the amino acid chain being assembled. Since only 20 amino acids exist naturally, most amino acids are coded by more than one codon. This principle is known as redundancy. See *id.* at 325.

3. The Role of mRNA

Although genomic DNA contains all of the information necessary to generate a particular protein, the DNA molecule itself is not directly involved in creation of the protein. Instead, when a gene is expressed, the relevant DNA sequence first is “transcribed” (i.e., copied) into a new single strand of genetic material called messenger ribonucleic acid (mRNA).²² After the transcription of genomic DNA into mRNA, the non-coding sequences (the introns) are removed in a process called “splicing,” leaving the coding sequence (the exons) necessary to produce the specific protein that corresponds to the gene.²³ Once transcribed and spliced of introns, mRNA is transported outside of the cell nucleus and used to synthesize protein in a process called “translation;” the particular sequence of codons found in the mRNA is translated into a sequence of amino acids that comprises a protein.²⁴

A cell generates mRNA only when a gene is being expressed. As such, scientists can determine that a particular gene is being expressed in certain tissue at a given point in time simply by confirming the existence of mRNA corresponding to the gene within the cells of the tissue.²⁵

4. The Role of cDNA

Because mRNA contains the same protein-coding regions (the exons) found in the genomic DNA sequence from which it was derived, scientists can use mRNA as a tool to trace an expressed protein back to its originating gene. However, mRNA is quite unstable once extracted from a cell, making it a difficult object of study within a laboratory environment. Therefore, scientists typically use a process called “reverse transcription” (and a catalyst enzyme called “reverse transcriptase”) to transcribe mRNA into a purified complementary DNA (cDNA) molecule commonly referred to as a “clone.” Like naturally occurring DNA, a man-made cDNA clone is comprised of two strands of nucleotide bases that take the form of a twisting double helix - the first strand is generated from (and thus, is “complementary” to) the single-stranded mRNA molecule, and the second strand is synthesized from the first strand of the clone.²⁶

A cDNA clone contains the same nucleotide sequence found in the mRNA from which it is generated; that is, the sequence derived from the exon portions of the corresponding gene.²⁷ Using a variety of different sequencing processes, geneticists can determine the full or partial sequence of nucleotides forming a cDNA clone.²⁸ Once the sequence of a cDNA clone is known, the codons found in that sequence can be used to determine the corresponding protein sequence. That information then can be used to study the specific function of the protein expressed by the gene to which the cDNA clone corresponds.²⁹

5. The Role of cDNA Libraries

To study the specific genes being expressed in a specific tissue of an organism at a specific point in time, geneticists commonly construct a cDNA library for that tissue.³⁰ These libraries take advantage of the fact that cells generate mRNA only when one or more genes within the cell are being expressed.³¹ Therefore, by extracting the mRNA from the cells of specific tissue at a certain point in time (and using reverse transcription to convert mRNA into cDNA), a library of cDNA clones for the tissue can be generated. By sequencing and studying the clones found in a tissue-specific cDNA library, scientists can determine which genes were being expressed in the tissue at the time of mRNA extraction.³²

22 See *id.* at 275-92.

23 See *id.* at 292-99.

24 See *id.* at 308-327. Like DNA, mRNA is comprised of chains of four nucleotide bases. DNA and mRNA share three of the same bases (adenine, guanine, and cytosine), but mRNA contains uracil in place of thymine. See *id.* at 210.

25 See *id.* at 275-82, 489-91.

26 See *id.* at 489-91.

27 See *id.*

28 See *id.* at 505-09.

29 See *id.* at 5-6, 518, 538.

30 See *id.* at 536.

31 See *id.*

32 See *id.* at 536-38.

B. The Role of Expressed Sequence Tags

To determine the full-length sequence of every clone stored in a typical cDNA library (and other similar collections of genetic material) would present an extremely time-consuming and costly endeavor.³³ As such, geneticists have sought to develop research tools to help screen genetic libraries for genes and gene fragments of interest in a rapid and cost-effective manner. Perhaps the most successful such tool is the “expressed sequence tag” (EST) - a short nucleotide sequence (usually 150 to 500 nucleotides in length) that uniquely represents a fragment of a cDNA clone, and thus, a fragment of the protein-coding portion of an expressed gene.³⁴

An EST typically is generated by isolating a random clone from a cDNA library and then sequencing a small number of nucleotides from the end of one the clone’s two strands.³⁵ When used as a probe and introduced into a sample containing a mixture of DNA (e.g., a cDNA library), a fragment of DNA corresponding to the EST sequence will hybridize under appropriate conditions with DNA molecules in the sample to which the EST uniquely corresponds.³⁶ Successful hybridization confirms that the gene corresponding to the EST was being expressed in the sample tissue at the time of mRNA extraction.³⁷

Capitalizing upon this scientific property, geneticists routinely utilize ESTs to screen large cDNA libraries for the presence of expressed genes.³⁸ The information derived from these screens can be compiled into large digital databases and then analyzed with powerful computerized software tools in connection with a wide array of scientific applications, including, for example, activities such as genome mapping, linkage analysis, and other uses discussed below.³⁹

C. Benefits Derived From the Use of ESTs

The vast majority of ESTs correspond to genes of unknown function. Nevertheless, even in the absence of any functional information, each EST can be used as a probe to screen cDNA libraries for the specific gene sequence to which the EST uniquely corresponds. The successful hybridization between an EST and its corresponding gene sequence confirms that the gene was being expressed in a certain tissue, at a certain time, by a certain organism. This information is useful to geneticists in a number of key respects - even where the specific function of the corresponding gene is unknown.⁴⁰

For example, as detailed below, an EST can be used in research as a tool to: (1) serve as a molecular marker on a genetic or physical map; (2) identify the presence or absence of a polymorphism; (3) measure the level of mRNA in a sample; (4) serve as a source for primers; (5) isolate promoters; (6) control the expression levels of protein; and (7) locate genetic molecules of other organisms. In these ways, each EST provides the scientific community not only with a unique molecular tool for the targeting and isolation of novel genes, but also with practical utilities entirely separate from identifying the function of the gene corresponding to the EST.

1. The Use of ESTs as Molecular Markers

ESTs can be used as molecular markers on physical or genetic maps without knowing *anything* about the function of the corresponding gene.⁴¹ More specifically, geneticists searching a genome typically utilize maps to guide them along through the many millions or billions of

33 See *id.* at 497.

34 See Adams, *supra* note 1 at 1651-56; SNUSTAD & SIMMONS, *supra* note 15, at 536-38. As noted above, ESTs were discovered in the early 1990s by a team of NIH scientists.

35 See SNUSTAD & SIMMONS, *supra* note 15, at 489, 519, 536-37.

36 See *id.* at 536-38.

37 See *id.* at 537-38. An EST probe can emit a visible light with a distinguishable wavelength after it binds to a complementary target sequence. See *id.*

38 See *id.* at 536-38.

See *id.* at 535-38. Prior to the development of ESTs, scientists used short DNA fragments called “sequenced tagged sites” (STSs) to screen large populations of genetic material. STSs are not necessarily derived from expressed genes. Therefore, although STSs can be used like ESTs in some respects, ESTs are more useful research tools than anonymous STSs because ESTs represent genes that are known to express protein in a specific tissue at a certain point in time. See Adams, *supra* note 1 at 1651-56.

40 See generally SNUSTAD & SIMMONS, *supra* note 15, at 489-91, 518-27; DAVIES, *supra* note 19, at 56-61. Indeed, it is standard practice in the field of genetics to use EST sequences to screen cDNA libraries for expressed genes without undertaking the time consuming and economically burdensome task of sequencing and characterizing the function of each and every located target gene. See DAVIES, *supra* note 19, at 57-58.

41 See SNUSTAD & SIMMONS, *supra* note 15, at 518-27 (describing genomics techniques utilizing ESTs and other markers to map and positionally clone genes).

base pairs found in the DNA of each cell. However, for a map to make navigational sense, it must include reliable landmarks or markers that help determine the order of genes and distances between sequences.⁴²

ESTs can do just that. When an EST is introduced into a genetic sample and hybridizes with its target complementary DNA sequence, the specific location where the probe hybridizes can serve as a molecular marker on a physical or genetic map.⁴³ This landmark information is useful to scientists - even in the absence of information about the function of the gene corresponding to the EST. For instance, when considered in connection with other markers, the presence or absence of a molecular marker corresponding to a particular EST can be used to help determine the genetic heritage of an organism and to estimate its likely traits.⁴⁴ Molecular markers also are useful in other applications as well, such as linkage analysis.⁴⁵

2. The Use of ESTs to Detect the Presence or Absence of a Polymorphism

Genomes naturally undergo spontaneous mutation in the course of a species's continuing evolution.⁴⁶ A "polymorphism" is a slight variation or difference in the nucleotide sequence of a gene that arises in the evolutionary process and appears in some members of a species.⁴⁷

ESTs can be utilized as probes to identify the presence or absence of a polymorphism between two genetic samples. Knowledge of the presence of a polymorphism is useful, for example, to enable plant or animal breeders to determine the distribution of genetic material passed from one organism to another. Polymorphic information also is useful to relate a particular genetic deviation to a particular observable trait for purposes of tracking the trait or predicting the likelihood of the trait being present or absent in other organisms.⁴⁸

In some organisms with high rates of polymorphic variation in their genetic sequences, such as corn, it is a matter of near statistical certainty that any EST will contain at least one polymorphism. Plant breeders can physically map the polymorphic information obtained from ESTs and then correlate the data in a meaningful way with existing genetic trait maps, even in the absence of gene function knowledge. This process allows breeders to utilize polymorphic ESTs as diagnostic molecular markers for traits whose underlying genes are physically proximate to the polymorphisms based on genetic linkage.⁴⁹ Using ESTs as diagnostic markers - which allows traits to be tracked at the seed stage on a molecular level - provides plant breeders with a huge advance in efficiency over other breeding techniques that require raising crops to maturity to observe their phenotypic traits.

Use of an EST to confirm the *absence* of a polymorphism also is useful to scientists. This information typically demonstrates that the two or more populations being compared share a common genetic heritage. Confirming the absence of a polymorphism also is useful in constructing genomic maps and assessing relationships between various traits and polymorphic markers.⁵⁰

3. The Use of ESTs to Detect and Measure mRNA Levels

ESTs also can be used to confirm the presence and quantitative measurement of an mRNA molecule within a particular tissue or cell sample. To do so, the EST is used as a probe to screen a sample of genetic material. Hybridization between the EST, which is specially marked, and

42 See *id.* at 518-19.

43 See *id.* at 519.

44 See *id.* at 518-24; DAVIES, *supra* note 19, at 57-58 (describing techniques to correlate ESTs to known genes in other organisms).

45 See SNUSTAD & SIMMONS, *supra* note 15, at 157-59, 179-96. Linkage analysis involves studying the relationships among genes in the same chromosome. Genes that are "linked" are proximate to one another within the chromosome and tend to be inherited together. See *id.* at 157-59. In agriculture, using molecular markers and linkage analysis are used for marker-assisted breeding, transgenic crop production, crop monitoring, and diagnostic techniques, all of which allow for better quality, growth, and yield for crops and livestock. See *id.* at 12-15. In humans, linkage analysis is critical in understanding the genetic basis of disease. See *id.* at 188-96.

46 See *id.* at 730-32 (describing random genetic drift).

47 See *id.* at 75, 722; DAVIES, *supra* note 19, at 42-44.

48 See generally SNUSTAD & SIMMONS, *supra* note 15, at 722-39 (discussing the study of allele frequency, polymorphisms, and genetic drift). Once a polymorphism is discovered, ESTs can serve as markers that are genetically or physically linked to the polymorphic area. See *id.* at 518-24 (discussing the use of ESTs and other markers in restrict fragment-length polymorphism mapping and other genomic techniques).

49 See *supra* note 45.

50 See *id.* at 519-22.

complementary mRNA molecules present in the sample is indicative of the presence of the corresponding mRNA, and the amount of the EST-mRNA hybrid formed is proportional to the amount of mRNA in the sample.⁵¹ Thus, ESTs may be used to ascertain whether a specific mRNA molecule is present in a sample, and if so, the level and extent of mRNA production by the cells or tissues under examination. This information can be used to identify the type or source of a particular tissue, or to help evaluate how a cell or tissue responds in a particular setting, such as when the organism is infected with a disease.⁵²

In this manner, ESTs may be used in chips or microarray assays to create expression profile data for sample tissues. Even in the absence of knowledge about the gene to which an EST corresponds, many different ESTs may be used in combination with one another and with other gene fragments that have been characterized to provide extensive data profiles that are useful to geneticists in studying and characterizing tissues and their biological states.

4. The Use of ESTs as a Source of Primers

The complex process necessary to sequence a gene or gene fragment requires many copies of the target DNA molecule. A well-known method called "polymerase chain reaction" (PCR) utilizes "primers" to generate billions of copies of a target DNA molecule within a matter of hours.⁵³ ESTs - like primers - typically represent the coding sequence found at the end of one of the strands of a specific DNA molecule. Therefore, without knowledge of the underlying gene function, an EST can be used as a readily available template to design primers specific to a given gene, thereby allowing scientists to generate large sample populations of the corresponding gene sequence in a rapid and cost-efficient manner.⁵⁴

5. The Use of ESTs to Isolate Promoters

A "promoter" is a specific region of a gene that regulates the expression of protein.⁵⁵ An EST can be used to isolate promoters in specific tissue, including, at a minimum, the promoter that regulates the expression of protein by the gene that corresponds to the EST.⁵⁶

Techniques such as chromosome walking - a process that utilizes a known fragment of DNA (in this case, the EST) to isolate adjacent fragments of DNA - may be used to isolate promoters. In a chromosome walk, an EST or other fragment is introduced as a probe into a genomic library to screen for all clones that hybridize with the probe. The located clone that extends furthest away from the locus of the original fragment then is used as a probe on more distal regions of the DNA. The process then is repeated to "walk" down the target region of the chromosome. Chromosome walks using ESTs can help, for example, to sequence a DNA molecule or create a physical map of an organism's genome.⁵⁷ In this way, ESTs may be used as to initiate "backward" chromosome walks near the beginning of the expressed gene to which the EST corresponds to isolate and identify that gene's nearby promoter. Promoters isolated in this manner not only have valuable applications with respect to the genes with which they are naturally associated, but also may be utilized to regulate the expression levels of entirely different genes.

51 See *id.* at 501 (describing Northern blot hybridization techniques that may be utilized in such measurements).

52 See *id.* at 536-38 (describing RNA assays such as dot blot hybridizations and gene chips).

53 See *id.* at 503-04. A primer is a short, single-stranded DNA molecule that is complementary to the sequence found at one end of the target DNA strand. The short sequence typically is unique to the target DNA molecule; therefore, when introduced into a sample, the primer will anneal only to the target DNA molecule. In nature, primers are formed from the free nucleotides residing in a cell by an enzyme called DNA primase. Primers also can be synthesized in a lab environment. See *id.* at 248, 277.

PCR involves heating a DNA sample to separate the double-stranded target DNA molecule into two single strands. When the mixture cools, a primer in the sample will anneal (i.e., bind) to its complementary sequence on the first strand, and a second primer will anneal to its complementary sequence on the second strand. DNA polymerase (an enzyme that catalyzes the synthesis of nucleic acids) then is used in conjunction with the annealed primers to synthesize two new DNA strands that are complementary to the original two strands. The two newly created strands anneal to the two original strands of the target DNA molecule, resulting in two complete target DNA molecules. When the two target DNA molecules are subjected to another cycle of heating, the strands of both DNA molecules separate, resulting in four strands that each becomes a template for DNA replication using the primer method discussed above. This heating and cooling process is continued as necessary, with each cycle doubling the amount of target DNA.

See *id.* at 503-04.

54 ESTs also can be used to confirm whether the PCR process correctly duplicated cDNA clones. See Adams, *supra* note 1, at 1651-56.

55 See SNUSTAD & SIMMONS, *supra* note 15, at 279-82, 287-88.

56 ESTs may be used as hybridization probes to initiate "chromosome walks" near the beginning of an expressed gene to isolate and identify the gene's nearby promoter. See *id.* at 525-26.

57 See *id.*

6. The Use of ESTs in Modulating the Expression Levels of Protein

ESTs can be used to modulate the expression levels of protein by a gene. For example, an EST may be used to create antisense RNA that inhibits production of proteins encoded by the corresponding gene.⁵⁸ Conversely, promoters or enhancers⁵⁹ identified using ESTs could be modified to alter their control characteristics and induce greater expression levels of a protein by the gene.⁶⁰ The ability to modulate protein expression levels using ESTs allows scientists to monitor how cells behave when the level of a specific protein is eliminated, reduced, or exaggerated. The resulting protein expression patterns aid scientists in understanding the function of the expressed gene and how to affect the pathways that regulate disease and other traits.

7. The Use of ESTs to Locate Genetic Molecules of Other Organisms

The genes of one organism often express proteins that are the same as, or substantially similar to, the proteins expressed by other organisms. Therefore, an EST derived from one organism can be used to probe genetic libraries for gene sequences of interest found in other organisms.⁶¹ If the EST hybridizes with a gene sequence, and the gene has a known function with respect to the other organism, that finding may serve as a shortcut to help determine how the gene functions in the organism from which the EST was derived.⁶²

Similarly, the knowledge derived from hybridization between an EST and a gene sequence found in another organism is important even in the absence of knowledge about how the gene functions in the either organism. Such a correlation suggests, for instance, that the organisms under study may share a common genetic heritage.⁶³ For this reason, the mere knowledge that a gene corresponding to an EST exists in a different organism alone provides geneticists with valuable information from an evolutionary standpoint.

III. THE CONTROVERSY SURROUNDING EST PATENTS

Despite the obvious and important value of ESTs to the scientific community, controversy has surrounded the patenting of ESTs since their discovery.⁶⁴ When NIH scientists filed a series of patent applications in the early 1990s directed to about 3,000 ESTs (as well as to the full-length genes and proteins corresponding to the ESTs) the protests heard were loud and immediate.⁶⁵ Although the NIH ultimately withdrew those applications in response to significant public opposition, and has since issued statements condemning the patenting of ESTs,⁶⁶ the controversy has not abated.

A. Arguments Against the Patenting of ESTs

Scientific and legal commentary have condemned the patenting of ESTs based on a host of moral, social, economic, and scientific concerns. Those who oppose the patenting of ESTs principally argue that:

- ESTs fall outside the scope of patentable subject matter because “the sequence of the human genome is at the core of what it means to be human and no

58 See *id.* at 565-68. Antisense RNA is complementary to the mRNA molecules transcribed from a gene. When introduced to cells attempting to produce corresponding proteins, antisense RNA will bind to the mRNA and block translation of the protein for which the mRNA codes. See *id.*

59 An enhancer, in this context, is a DNA sequence that up-regulates transcription of a gene located nearby in the chromosome. See *id.* at 609.

60 See *id.* at 279-83, 287-88, 561-65, 608-10 (describing the role of promoters and enhancers and the introduction of synthetic, modified, and foreign genetic elements into plant and animal species); Kay et al., 236 SCIENCE 1299 (1987) (describing enhancer modifications).

61 See DAVIES, *supra* note 19, at 57-59.

62 See *id.*; Ricki Lewis, *Pufferfish Genome Probe Human Genes*, THE SCIENTIST, Mar. 18, 2002, at 22 (describing how the genomes of humans and the pufferfish are “at least 90% similar” and detailing efforts to probe the human genome with pufferfish DNA sequences).

63 See generally SNUSTAD & SIMMONS, *supra* note 15, at 720-45 (discussing populations and evolutionary genetics and the concepts of genetic divergence and conservation).

64 See generally Holman, *supra* note 10, at 750-54 (discussing controversy). Mark C. Farrell, *Designer DNA for Humans: Biotech Patent Law Made Interesting for the Average Lawyer*, 35 GONZ. L. REV. 515, 518 (2000) (discussing filing of NIH patent applications and those who “protested loudly”).

65 See Mark C. Farrell, *Designer DNA for Humans: Biotech Patent Law Made Interesting for the Average Lawyer*, 35 GONZ. L. REV. 515, 518 (1999) (discussing filing of NIH patent applications and those who “protested loudly”); Holman, *supra* note 10, at 750-754.

66 See Christopher Anderson, *NIH Drops Bid for Gene Patents*, 263 SCIENCE 909, 910 (1994) (noting that the NIH ultimately abandoned its EST applications because it no longer considered them to be “in the best interests of the public or science”).

person should be able to own/control something so basic⁶⁷ and “the patenting of ESTs . . . is contrary to indigenous law”;⁶⁸

- The existence of EST patents will block and significantly hamper necessary and important genetic research;⁶⁹
- EST patents “may result in suboptimal allocation of research resources” by focusing development efforts on easily discovered ESTs rather than on the more important, but also more difficult, task of determining the function of genes and proteins;⁷⁰
- Allowing the patenting of ESTs will encourage companies to expend large sums discovering ESTs, most of which will correspond to genes of no known function; this will lead to “an increase in the cost of developed products that reach the market” as these companies seek to recoup expenses directed to the discovery and patenting of their ESTs;⁷¹
- Large pharmaceutical and genomics companies will unfairly benefit from the widespread patenting of ESTs because those entities have detected far more ESTs than other entities, particularly with respect to the most important genomes (e.g., humans, crops);⁷²
- Most meaningful uses of ESTs involve entire databases of thousands of ESTs; therefore, “the fragmented property rights, and the effort needed to integrate them into a useful product, may create transaction costs that deter biotechnological research and development”;⁷³ and
- Most companies developing ESTs receive public funds, and as such, ESTs belong to the public.

B. Arguments in Favor of Patenting ESTs

In response, proponents of EST patents contend that ESTs are valuable inventions entitled to patent protection. These advocates typically maintain that:

- ESTs are new, useful, and nonobvious inventions, and despite more than a decade of intense debate, Congress has not provided any indication that ESTs should be treated differently from other inventions under the patent laws;⁷⁴
- The issuance of EST patents is critical to biotechnology and genomics companies, especially emerging companies, which require patents to attract

67 See Utility Examination Guidelines, 66 Fed. Reg. 1092, 1093 (2001); Farrell, *supra* note 65, at 528-32 (discussing “ethical problems” surrounding patenting of gene sequences); Peter J. Gardner, *U.S. Intellectual Property Law and the Biotech Challenge: Searching for an Elusive Balance*, 44 N.H. Bar J. 24 (Mar. 2003), http://ipmall.info/hosted_resources/NHBAIP/art_gardner_030414.pdf, at *3 (discussing the “religious” and “philosophical” arguments against EST patents).

68 66 Fed. Reg. at 1094.

69 See *id.* (“[P]atents should not issue for genes because patents on genes are delaying medical research.”); Gardner, *supra* note 67, at *3 (“[A]cademic and basic researchers fear that proprietary rights to basic research results will hinder scientific progress by impeding access to fundamental information or by blocking the use of experimental tools.”); Melanie J. Howlett and Andrew F. Christie, *An Analysis of the Approach of the European, Japanese and United States Patent Offices to Patenting Partial DNA Sequences (ESTs)*, 34 INT’L REV. INDUS. PROP. & COPYRIGHT 581 (2004), <http://ssrn.com/abstract=573184>, at *8 (“The common view in scientific circles was that EST patents would impede research.”).

70 Holman, *supra* note 10, at 776 (noting that many thousands of ESTs can be sequenced during the same amount of time it may take to accomplish other more important, but also more time consuming, genetic research); Farrell, *supra* note 65, at 527 (“[P]atenting useless things diverts resources and attention from the favored pursuit of genuine innovation.”); Howlett, *supra* note 69, at *9 (noting concerns by the American Society of Human Genetics (ASHG) “that the patenting of ESTs would spur a race to isolate ESTs” at the cost of other valuable research).

71 Holman, *supra* note 10, at 777. Accord Howlett, *supra* note 69, at *9 (“[O]pportunity costs . . . labor costs for EST production and sequencing, and the like would drive the cost of EST patent efforts well above the mere cost of patent applications.”).

72 See Holman, *supra* note 10, at 782 (“[I]t is likely that the blocking power would be in the hands of a very few large entities. So the potential economic impact of blocking EST patents is great.”).

73 *Id.* at 785 (discussing “tragedy of anticommons argument”); Gardner, *supra* note 67, at *3 (“The need to pay licensing fees, scientists say, will dissuade them from experimenting on patented genes.”).

74 See *infra* Section V.

and retain investors and to protect their substantial investment in discovering ESTs;⁷⁵ and

- One of the core premises underlying the patent system is that society benefits from the public disclosure of inventions; the refusal to issue EST patents runs contrary to that premise, and will stifle further genomic research by forcing companies to keep their EST discoveries secret.⁷⁶

C. Proposals Concerning the Protection of ESTs

This intense debate has given rise to a variety of proposed mechanisms intended to define the appropriate scope of property rights applicable to ESTs. Those arguing against the patenting of ESTs typically contend that all ESTs should: (1) be dedicated to the public domain⁷⁷ or (2) be made eligible for protection only under non-patent forms of intellectual property law (e.g., copyright law or forced registration and licensing schemes).⁷⁸

Conversely, some proponents contend that EST patents should issue based on the same standards, and with the same resulting patent rights, as patents directed to claimed inventions in other technological fields.⁷⁹ Others agree that EST patents should issue, but disagree about the scope of resulting patent rights. These advocates often maintain that claims directed to ESTs should be limited in time or scope (e.g., limiting claims to uses expressly disclosed in the specification, or making claims unenforceable against experimental users).⁸⁰ And still others assert that EST patents should issue, but only after being subjected to heightened patentability standards under 35 U.S.C. Sections 101-03 and 112.⁸¹

IV. THE PTO'S CURRENT APPROACH TO EST PATENT CLAIMS: THE APPLICATION OF A HEIGHTENED UTILITY STANDARD UNDER 35 U.S.C. SECTION 101.

To date, neither Congress nor the courts have provided any explicit instruction concerning the proper treatment of ESTs under the patent laws - a silence that has left the PTO to face this fiery debate on its own. Unfortunately, the PTO's treatment of the issue has been far from consistent. After years of applying the same minimal standard of utility to ESTs and other claimed inventions, the PTO now applies a heightened standard of utility to ESTs - a standard that, as implemented by the PTO, effectively precludes the patenting of almost all ESTs.

A. The PTO's 1995 Utility Examination Guidelines

Under the 1995 version of its Utility Examination Guidelines ("the 1995 Guidelines"), the PTO instructed its examiners to find that the utility requirement of 35 U.S.C. Section 101 was satisfied where a patent application contained an assertion that "the claimed invention [was] useful for any particular purpose (i.e., a 'specific utility') and that assertion would be considered credible by a

75 See Farrell, *supra* note 65, at 518 ("Patents are needed to reward those willing to undertake the painstaking and expensive labor of deciphering the makeup of genes."); Gardner, *supra* note 67, at *3 ("The biotech industry argues that without strong patent protection firms could not justify the risk, time, energy, and money necessary to create new pharmaceutical products.")

76 See 66 Fed. Reg. at 1094 ("The disclosure of genetic inventions provides new opportunities for further development."); *Brenner v. Manson*, 383 U.S. 519, 533 (1966) ("[O]ne of the purposes of the patent system is to encourage dissemination of information concerning discoveries and inventions."); John J. Doll, *The Patenting of DNA*, SCIENCE, May 1, 1998, at 689, 689-90 ("Issuance of patents to such products not only results in the dissemination of technological information to the scientific community for use as a basis for further research but also stimulates investment in the research, development, and commercialization of new biologics.")

77 See 66 Fed. Reg. at 1095 (rejecting comments that "DNA should be freely available for research"); Holman, *supra* note 10, at 805-809 (discussing the "public domain approach").

78 See Holman, *supra* note 10, at 815-17 (proposing registration system that would provide a brief period of exclusivity, a period of forced licensing, and then dedication to the public domain); Farrell, *supra* note 65, at 532-34 (discussing application of copyright law to gene sequences).

79 See *infra* Section V.

80 See 66 Fed. Reg. at 1094-95 (refusing to adopt comment that "parent claims directed to DNA should be limited to applications or methods of using DNA, and should not be allowed to encompass the DNA itself"); *id.* at 1095 (refusing to adopt comment that claims directed to genes "should be limited to uses disclosed in the patent application"); *id.* at 1096 (refusing to adopt comment that gene patents should "allow for others to learn from and improve the invention" without risk of infringement); Holman, *supra* note 10, at 809-13 (discussing theories to limit duration of EST patents).

81 See 66 Fed. Reg. at 1096 (discussing comments suggesting heightened utility standard); Nathan Machin, Comment, *Prospective Utility: The New Interpretation of the Utility Requirement of Section 101 of the Patent Act*, 87 CAL. L. REV. 421 (1999) (offering a new utility standard).

person of ordinary skill in the art . . .”⁸² Under this relaxed utility standard,⁸³ the PTO issued an increasing number of gene patents - including several directed to ESTs.⁸⁴ High-ranking PTO officials approved of this practice, publicly commenting that ESTs satisfied all of the patentability requirements, including utility:

Although some . . . may not directly identify genes, they may still be extremely useful and thus satisfy the utility requirement. . . . ESTs may have specific utilities that are separate and distinct from the genes to which they correspond. For example, . . . ESTs can be used for chromosome identification and gene mapping. [ESTs] can be used to identify genes.⁸⁵

B. The PTO’s 2001 Utility Examination Guidelines

By the late 1990s, the PTO faced mounting pressure from the public and Clinton Administration to reverse its open willingness to issue EST patents - a policy that had caused applicants to burden the PTO’s docket with applications directed to more than a million ESTs.⁸⁶ The PTO responded to these concerns by issuing its Revised Interim Utility Guidelines in 1999, and its Final Guidelines for Examination of Applications for Compliance With the Utility Requirement (the “2001 Guidelines”) in January 2001.⁸⁷

The new 2001 Guidelines expressly confirm that ESTs are patentable, provided that the requirements of patentability under 35 U.S.C. Section 101-03 and 112 are met.⁸⁸ The 2001 Guidelines, however, announce a new utility standard that reverses course from the relaxed stance announced by the PTO only a few years earlier. More specifically, the 2001 Guidelines require applicants to satisfy a three-pronged test that conditions patentability upon the existence of at least one utility that is “specific, substantial, and credible.”⁸⁹ As detailed below, the PTO’s implementation of this standard effectively has precluded patents from issuing with respect to nearly all ESTs.

1. The “Specific Utility” Prong

The PTO defines a “specific utility” as one “that is *specific* to the subject matter claimed,” unlike a “*general* utility that would be applicable to the broad class of the invention.”⁹⁰ In contrast to prior public statements made by PTO officials, the PTO has construed this requirement to mean that:

[A] claim to a polynucleotide [such as an EST] whose use is disclosed simply as a “gene probe” or “chromosome marker” would not be considered to be *specific* in the absence of a disclosure of a specific DNA target. A general statement of

82 Utility Examination Guidelines, 60 Fed. Reg. 36,263, 36,264 (1995).

83 See Andrew T. Kight, Note, *Pregnant With Ambiguity: Credibility and the PTO Utility Guidelines in Light of Brenner*, 73 IND. L. J. 997, 999-1000 (1998) (concluding that the 1995 PTO utility guidelines “make utility-based rejections mere artifacts” because “[t]he guidelines establish the utility standard as ‘credible,’ which is far below that of ‘substantial’ as imposed . . . [in] *Brenner*”).

84 For example, in October 1998, Incyte Pharmaceuticals received U.S. Patent No. 5,817,479 directed to ESTs concerning “human kinase homologs.” By March 2000, the PTO had issued five patents covering ESTs. See Ken Garber, *Homestead 2000: The Genome*, SIGNALS (Mar. 2000), at <http://www.signalsmag.com/signalsmag.nsf/publish/find?searchview&query=garber> (“[O]nly five EST patents have issued to date.”)

85 Doll, *supra* note 76, at 690. Accord Stephen P. Hoffert, *USPTO Issues Biotech Patent Guidelines*, THE SCIENTIST, Jul. 6, 1998 (quoting John J. Doll, director of biotechnology examination at the PTO: “Our position is that ESTs are clearly patentable subject matter. . . . They are nonobvious and have novelty and utility.”).

86 See Pat Carson and Melissa Mandrooc, *Gene-Based Drugs Challenge Patent Process*, N.Y.L.J., Oct. 15, 2001, Section 5 (noting that “public pressure” led to issuance of the new utility guidelines); Garber, *supra* note 84 (explaining that when the PTO “quit tracking” the number of pending ESTs in the mid-1990s, it “had about a half a million”); Leslie G. Restaino, et al., *Patenting DNA-Related Inventions in the European Union, United States, and Japan: A Trilateral Approach or a Study in Contrast?*, 2003 UCLA L.J. & TECH 2 (“[B]y the end of 2000, the USPTO had received patent applications on millions of gene fragments. . . .”). More recent estimates suggest that Incyte Pharmaceuticals and Hiseq alone have filed applications directed to more than two million ESTs. See Garber, *supra* note 84.

87 In 1996, the PTO sought to further limit the number of EST filings by precluding applicants from seeking to cover more than ten ESTs in a single application. See MPEP Section 803.04. The PTO is even more restrictive today: “the patent office will likely reject any filing claiming more than a single sequence of genetic code.” Jeffrey Krasner, *Putting Patents in Their Place: Standards for Filing Claims on Genes Raised*, BOSTON GLOBE, Jan. 29, 2003, at C4.

88 Utility Examination Guidelines, 66 Fed. Reg. 1092, 1094 (2001) (“ESTs which meet the criteria for utility, novelty, and nonobviousness are eligible for patenting when the application teaches those of skill in the art how to make and use the invention.”).

89 66 Fed. Reg. at 1093. The Guidelines do not expressly define the terms “specific,” “substantial,” and “credible,” but do provide a few basic examples of when those requirements might be met by an EST. See *id.* at 1094 (EST may have utility if “it can be used to produce a useful protein or it hybridizes near and serves as a marker for a disease gene”); *id.* at 1095 (EST may have substantial and credible utility if “it has a gene-regulating activity”); *id.* at 1096 (“homology-based assertions” may satisfy utility requirement). Notably, an EST that corresponds to a gene of unknown function can satisfy none of these requirements.

90 MPEP Section 2107.01 (emphasis added).

diagnostic utility, such as diagnosing an unspecified disease, would ordinarily be insufficient absent a disclosure of what condition can be diagnosed.⁹¹

2. The “Substantial Utility” Prong

“Substantial utility” refers to a utility that “defines a ‘real world’ use.”⁹² “[T]hrow-away” utilities (e.g. “the use of a complex invention as landfill”) are not substantial.⁹³ Moreover, the PTO has concluded that “[u]tilities that require or constitute carrying out further research to identify or reasonably confirm a ‘real world’ context of use are not substantial utilities.”⁹⁴ Examples of non-substantial uses include: (1) “studying the properties of the claimed product itself or the mechanisms in which the material is involved”; (2) “method[s] of treating an unspecified disease or condition”; (3) “method[s] of assaying for or identifying a material that itself has no specific and/or substantial utility”; (4) “method[s] of making a material that itself has no specific, substantial, or credible utility”; and (5) “claim[s] to an intermediate product for use in making a final product that has no specific, substantial and credible utility.”⁹⁵

3. The “Credible Utility” Prong

An asserted use that meets the specific and substantial utility prongs “cannot simply be dismissed by Office personnel as being ‘wrong.’”⁹⁶ Instead, the examiner must accept a utility asserted by the applicant as “credible” unless: “(A) the logic underlying the assertion is seriously flawed, or (B) the facts upon which the assertion is based are inconsistent with the logic underlying the assertion.”⁹⁷ The determination of whether an invention has “credible utility” is “assessed from the perspective of one of ordinary skill in the art in view of the disclosure and any other evidence of record . . . that is probative of the applicant’s assertions.”⁹⁸

The examiner training materials make clear that, to the extent a claim directed to an EST satisfies the specific and substantial utility prongs, the claim typically will satisfy the credible utility prong as well: “[N]ucleic acids could be used as probes, chromosome markers, or forensic or diagnostic markers. Therefore, the credibility of such an assertion would not be questioned, although such a use might fail the *specific* and *substantial* tests”⁹⁹

C. The PTO’s Uneven Application of Its Heightened Utility Test

The PTO’s present utility standard purports to apply equally to all inventions. The PTO’s actual implementation of that standard, however, has been far from equal. In particular, while the PTO continues to assess the utility of inventions falling outside the field of genetics under a relaxed threshold of proof, at the same time, the PTO has applied a highly stringent test to ESTs, concluding that an EST fails the specific and substantial utility prongs in the absence of evidence showing some knowledge concerning the function of the gene or protein or an identified trait corresponding to the EST.

By directly equating the requirements of a specific and substantial utility with the level of knowledge concerning the function of a gene, protein, or trait that corresponds to an EST - a test that discards many important uses to which ESTs can be put - the PTO essentially has precluded the patenting of almost all ESTs.¹⁰⁰ This result should come as little surprise given the PTO’s open

91 *Id.* (emphasis added).

92 *Id.*

93 66 Fed. Reg. at 1098.

94 MPEP Section 2107.01. *Accord id.* (confirming that “[m]any research tools such as . . . nucleotide sequencing techniques have a clear, specific and unquestionable utility (e.g., they are useful in analyzing compounds)”).

95 *Id.*

96 MPEP Section 2107.02.

97 *Id.*

98 See MPEP Section 2107.02. The failure of an applicant to demonstrate a utility that is specific and substantial is not immediately fatal to the application, if the claimed invention has a “well-established” utility. MPEP Section 2107.2. The PTO has concluded that ESTs corresponding to genes of unknown function do not have a well-established utility. See United States Patent and Trademark Office, *Revised Interim Utility Guidelines Training Materials*, at 50-51 (1999), available at <http://www.uspto.gov/web/offices/pac/utlity/utilityguide.pdf> [hereinafter *Training Materials*].

99 *Id.* at 5.

100 See Carson, *supra* note 86 (“[T]he utility standard set forth by these guidelines should be a significant obstacle to the issuance of patents for partial and uncharacterized cDNA sequences”); Holman, *supra* note 10, at 758 (“[T]he utility requirement cannot be met in the vast majority of EST applications.”).

concession that it enacted the 2001 Guidelines for the specific purpose of precluding the patenting of nearly all ESTs.¹⁰¹

V. THE PTO'S IMPOSITION OF A HEIGHTENED UTILITY STANDARD, AND ITS UNEVEN APPLICATION OF THAT STANDARD TO EST PATENT APPLICATIONS, RUNS CONTRARY TO ESTABLISHED LAW.

The utility standard established by 35 U.S.C. Section 101 is not a moving target that the PTO is entitled to adjust from time to time at its whim. Nor does the intensity of that standard rise or fall based on the PTO's desire to cleanse its docket or silence ongoing debate. Instead, the level of utility required by Section 101 is fixed by statute and court decisions to require just a minimal showing of usefulness. As detailed below, the PTO's effort to saddle EST applications with a heightened standard of utility runs contrary to this statutory and judicial precedent.¹⁰²

A. The Minimal Threshold of Utility Established by 35 U.S.C. Section 101.

The concept of utility embodies "a fundamental requirement of American patent law" that finds its roots and purpose in the United States Constitution: That "[t]he Congress shall have Power ... To Promote the Progress of Science and *useful* Arts."¹⁰³ Over the last two centuries, Congress has enacted a regime of patent laws to "promote this progress by offering inventors exclusive rights for a limited period as an incentive for their inventiveness and research efforts."¹⁰⁴ Since 1952, the constitutional requirement of "useful" inventions has been codified by 35 U.S.C. Section 101, which provides in relevant part that:

Whoever invents or discovers any new and *useful* process, machine, manufacture, or composition of matter, or any new and *useful* improvement thereof, may obtain a patent therefor¹⁰⁵

The legislative history unambiguously indicates that Congress intended for the "extremely broad"¹⁰⁶ language of Section 101 to "be given wide scope"¹⁰⁷ and "a broad construction"¹⁰⁸ so as to cover "anything under the sun that is made by man."¹⁰⁹ The goal of this legislative scheme was to foster "a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens."¹¹⁰

Given the expansive breadth of this statutory language and congressional intent, courts construing Section 101 (and predecessor versions of that statute) historically have ascribed a minimal standard to the requirement that an invention be "useful." For example, in a well-known decision now nearly two centuries old, Justice Story announced that:

All that the law requires is, that the invention should not be frivolous or injurious to the well-being, good policy, or sound morals of society. The word

101 See Holman, *supra* note 10, at 750-54. The uneven treatment of ESTs is evident in the PTO's own training materials, which discuss the treatment of a patent application that claims an EST that corresponds to a gene of unknown function and asserts that the EST can be used as a probe to obtain the full-length gene and study the corresponding protein - a use common to all ESTs. Examiners are instructed to reject the application for failure to satisfy both the specific and substantial utility prongs. According to the PTO, the EST would not meet the specificity prong because "[a]ny partial nucleic acid prepared from any cDNA may be used to as a probe in the preparation and/or identification of a full-length cDNA," and would not satisfy the substantial utility prong because the corresponding gene and protein have no known utility and would require further research "to identify or reasonably confirm a 'real world' context of use." *Training Materials*, *supra* note 98, at 50-52.

102 See *In re Krimmel*, 292 F.2d 948, 954 (C.C.P.A. 1961) ("[T]he Patent Office has not been charged by Congress with the task of protecting the public against possible misuse of chemical patents."); see also 66 Fed. Reg. at 1095 ("The USPTO must administer the laws as Congress has enacted them and as the Federal courts have interpreted them.")

103 U.S. CONST., Art. I Section 8 (emphasis added); see *Stiftung v. Renishaw PLC*, 945 F.2d 1173, 1180 (Fed. Cir. 1991) ("The utility requirement has its origin in article I, section 8 of the Constitution, which indicates that the purpose of empowering Congress to authorize the granting of patents is 'to promote progress of . . . useful arts.'")

104 *Diamond v. Chakrabarty*, 447 U.S. 303, 307 (1980).

105 35 U.S.C. Section 101 (emphasis added).

106 *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124, 130 (2001).

107 *Id.*

108 *Chakrabarty*, 447 U.S. at 380.

109 *Id.* at 308-09 (quoting S. REP. NO. 82-1979, at 5 (1952); H.R. REP. NO. 82-1923, at 6 (1952)).

110 *Keuane Oil Co. v. Bicon Corp.*, 416 U.S. 470, 480 (1974).

“useful,” therefore, is incorporated into the act in contradistinction to mischievous or immoral.¹¹¹

Even today, courts continue to cite Justice Story’s minimalist view of utility with approval.¹¹²

1. The Requirement of “Substantial” or “Practical” Utility Established by *Brenner v. Manson*.

Nearly four decades ago, a divided Supreme Court addressed the standard of utility applicable to a chemical process or composition with no known utility “other than as a possible object of scientific inquiry.”¹¹³ After acknowledging the sometimes-difficult task of assessing the utility of inventions directed to chemical compositions,¹¹⁴ the *Brenner* court determined that to be “useful” and patentable, inventions must provide the public with at least one identifiable benefit that is “substantial”:

The basic quid pro quo contemplated by the Constitution and the Congress for granting a patent monopoly is the benefit derived by the public from an invention *with substantial utility*.¹¹⁵

The Supreme Court further clarified that “substantial utility” does not exist “[u]nless and until . . . [a] specific benefit exists in currently available form.”¹¹⁶ Otherwise, “there is insufficient justification for permitting an applicant to engross what may prove to be a broad field.”¹¹⁷ “[A] patent is not a hunting license. It is not a reward for the search, but compensation for its successful conclusion.”¹¹⁸

In the several decades since *Brenner*, the Federal Circuit and its predecessor courts, the U.S. Court of Claims and the U.S. Court of Customs and Patent Appeals (C.C.P.A.), have implemented a two-prong analytical framework to assess whether an invention provides “substantial utility.” First, the claimed invention must provide at least one specific, “identifiable benefit” - i.e., one that is not vague or unknown.¹¹⁹ Second, the benefit must also be “substantial” or “practical”¹²⁰ - i.e., one that provides a measurable benefit in the “real-world.”¹²¹

2. Even After *Brenner*, “The Threshold Of Utility Is Not High.”

A number of commentators have suggested that *Brenner* marked a radical departure from Justice Story’s minimalist view of utility.¹²² It did not. More recent decisions of the Federal Circuit and its predecessor repeatedly have confirmed that the threshold to demonstrate “substantial utility” under Section 101 remains strikingly minimal, even today:

111 *Lowell v. Lewis*, 15 F. Cas. 1018, 1019 (C.C. Mass. 1817) (No. 8568); see also *Bedford v. Hunt*, 3 F. Cas. 37, 37 (C.C. Mass. 1817) (No. 1217) (“By useful invention, in the statute, is meant such a one as may be applied to some beneficial use in society, in contradistinction to an invention, which is injurious to the morals, the health, or the good order of society.”).

112 See, e.g., *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364, 1366-67 (Fed. Cir. 1999) (noting that “[c]ourts have continued to recite Justice Story’s formulation,” but explaining that the prohibition on patenting inventions “principally designed to serve immoral or illegal purposes has not been applied broadly in recent years”).

113 *Brenner v. Manson*, 383 U.S. 519, 529 (1966).

114 *Id.* at 533.

115 *Id.* at 534-35 (emphasis added).

116 *Id.* at 534.

117 *Id.* at 535.

118 *Id.* at 536.

119 *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364, 1366 (Fed. Cir. 1999). Accord *In re Brana*, 51 F.3d 1560, 1565 (Fed. Cir. 1995); *In re Kirk*, 376 F.2d 936, 945 (C.C.P.A. 1967). Moreover, the utility requirement of Section 101 demands only *one* actual, identifiable benefit. See *Stiftung v. Renishaw PLC*, 945 F.2d 1173, 1180 (Fed. Cir. 1991) (“[W]hen a properly claimed invention meets at least one stated objective, utility under Section 101 is clearly shown.”); *id.* (noting that the utility requirement does not “mean that a patented device must accomplish all objectives stated in the specification.”).

120 *Fujikawa v. Watanasin*, 93 F.3d 1559, 1563 (Fed. Cir. 1996). The Federal Circuit has long-treated the terms “substantial utility” and “practical utility” interchangeably. See, e.g., *id.* 1563-64; *Cross v. Iizuka*, 753 F.2d 1040, 1047 n.13 (Fed. Cir. 1985).

121 *Nelson v. Boulter*, 626 F.2d 853, 856 (C.C.P.A. 1980).

122 See, e.g., Teresa M. Summers, Note, *The Scope of Utility in the Twenty-First Century: New Guidance for Gene-related Patents*, 91 GEO. L.J. 475, 479 (2003); Karen F. Lech, Note, *Human Genes Without Functions: Biotechnology Tests the Patent Utility Standard*, 27 SUFFOLK U. L. REV. 1631, 1643 (1993).

- Lack of utility is shown “when there is a *complete absence of data* supporting the statements which set forth the desired results of the claimed invention.”¹²³
- “The threshold of utility is *not high*: An invention is ‘useful’ under section 101 if it is capable of providing *some identifiable benefit*.”¹²⁴
- “To violate Section 101 the claimed device must be *totally incapable of achieving a useful result . . .*”¹²⁵
- “[A] reasonable jury could not have found the ‘*total incapacity*’ that is required to prevail on a lack of utility defense under Section 101.”¹²⁶
- “*Some degree of utility* is sufficient for patentability.”¹²⁷
- “‘Practical utility’ is a shorthand way of attributing ‘real-world’ value to claimed subject matter. In other words, one skilled in the art can use a claimed discovery in a manner which provides *some immediate benefit* to the public.”¹²⁸

B. The PTO Cannot Selectively Target EST Patents Through a Heightened Utility Requirement.

The PTO has a plain and legitimate interest in providing patentees with a streamlined application process - a task that, prior to 2001, was made more difficult by the flood of pending claims directed to ESTs. The PTO also has an obvious interest in resolving any uncertainty surrounding the patentability of particular technologies, including ESTs. Nevertheless, it is inappropriate for the PTO to seek to accomplish either of those objectives through the arbitrary establishment of new patentability requirements.

Yet, that is exactly what has happened. Rather than apply the minimal standard of utility established by Congress and repeatedly applied by the courts - and PTO itself prior to 2001 - the PTO instead announced a new, more stringent utility standard applicable to ESTs - a standard that conditions patentability upon some undefined level of knowledge concerning corresponding gene function or trait. The PTO’s enactment of a new utility standard impinges upon the role of the legislature. It is well established that Congress alone has been entrusted with the power to define the level of utility necessary to effectuate the constitutional requirement that patentable inventions be “useful”,¹²⁹ a power that Congress has exercised through its enactment of 35 U.S.C. Section 101.

Moreover, nothing in the plain language of Section 101 or its legislative history in any way supports a claim that Congress expressly or impliedly intended to subject ESTs to a utility standard that is more stringent than the low utility standard applicable to other inventions. In fact, the decisions of the Federal Circuit make abundantly clear that an identical standard applies to all

123 *In re Corrigitt*, 165 F.3d 1353, 1356 (Fed. Cir. 1999) (emphasis added) (quoting *Envirotech Corp. v. Al George, Inc.*, 730 F.2d 753, 762 (Fed. Cir. 1984)).

124 *Juicy Whip, Inc.*, 185 F.3d at 1366 (emphasis added) (citing *Brenner v. Manson*, 383 U.S. 519, 534 as direct support for holding).

125 *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1571 (Fed. Cir. 1992) (emphasis added).

126 *Tol-O-Matic, Inc. v. Proma Produkt-Und Marketing GmbH*, 945 F.2d 1546, 1553 (Fed. Cir. 1991) (emphasis added), *abrogated on other grounds, Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995).

127 *Envirotech Corp. v. Al George, Inc.*, 730 F.2d 753, 762 (Fed. Cir. 1984) (emphasis added). *Accord id.* (“[T]he defense of non-utility cannot be sustained without *proof of total incapacity*.”) (emphasis added).

128 *Nelson v. Boulter*, 626 F.2d 853, 856 (C.C.P.A. 1980) (emphasis added). The few post-*Brenner* cases actually finding lack of utility further confirm that the standard for utility remains minimal. See, e.g., *Neuman v. Quigg*, 877 F.2d 1575, 1577, 1581-82 (Fed. Cir. 1989) (finding lack of utility where “perpetual motion machine” deemed “impossible” under the laws of thermodynamics); *Fregeau v. Masinghoff*, 776 F.2d 1034, 1039 (Fed. Cir. 1985) (finding no utility for method to enhance the flavor of beverages using a magnetic field); *In re Houghton*, 433 F.2d 820, 820-21 (C.C.P.A. 1970) (finding no utility for “highly unusual” flapping flying machine based on bird and insect flight); *In re Elgroth*, 419 F.2d 918, 920-21 (C.C.P.A. 1970) (no utility for “speculative” method of controlling the aging process); *In re Kirk*, 376 F.2d 936, 942-43 (C.C.P.A. 1967) (utility lacking for steroid compound where disclosed “possible use so general as to be meaningless”).

129 See, e.g., U.S. CONST., Art. I Section 8; *Diamond v. Chakrabarty*, 447 U.S. 303, 307 (1980); *Juicy Whip*, 185 F.3d at 1368.

inventions.¹³⁰ Continuing acceptance of the PTO's unequal treatment of ESTs will continue to lead to unjustifiable results. By way of example, a drink dispenser whose sole benefit is that it "look[s] like another" product will be deemed by the PTO to have patentable utility,¹³¹ while nearly all ESTs will continue to be rejected by the PTO for lack of utility - even though ESTs have played, and continue to play, a critical role in helping scientists to develop new drug treatments, genetically improved crops, and other products beneficial to humanity. This unbalanced result simply highlights the danger of the PTO's unilateral decision to apply one standard of utility to certain classes of inventions and another standard of utility to others.

At bottom, the PTO simply does not have the authority or the expertise to usurp the role of Congress by rewriting the statutorily mandated standard for utility applicable under 35 U.S.C. Section 101. Accordingly, the courts should reject the PTO's newly manufactured and unequally applied utility test.

C. The PTO's Arguments in Favor of a Heightened Utility Standard.

The PTO has advanced a series of arguments in an effort to justify the imposition of a strict utility requirement to ESTs, but not to other inventions. None of these arguments can withstand scrutiny.

1. The PTO's *Brenner* Argument.

First, the PTO maintains that *Brenner* precludes a finding of substantial utility with respect to ESTs that correspond to genes of unknown function or that have not been correlated with a particular trait.¹³² However, the attempt to equate ESTs with the chemical composition at issue in *Brenner* is misplaced. The *Brenner* chemical composition had no known utility other than as an object of further scientific research. In contrast, the utility of ESTs does not rest upon some mere interest in conducting further research upon the ESTs *themselves*. Rather, ESTs have utility because they can be used as research tools to conduct further scientific research on *other* chemical compositions (i.e., genes, gene fragments, proteins, etc.).¹³³

Moreover, unlike the chemical composition at issue in *Brenner* - which possibly had no actual discoverable utility at all - ESTs correspond to expressed genes that synthesize proteins that an organism undoubtedly uses for some meaningful purpose. At a minimum, ESTs can be used to discover that unknown, but not unknowable, utility, as well as to conduct the variety of different research applications discussed above. These many uses collectively demonstrate that ESTs have significant value beyond further "use-testing" of the EST sequences themselves. Thus, *Brenner* is wholly inapplicable on this point.¹³⁴

¹³⁰ See, e.g., *id.* (applying the same "substantial utility" standard to an imitation drink dispenser that the Supreme Court applied to the chemical composition at issue in *Brenner*).

¹³¹ See *Juicy Whip*, 185 F.3d at 1367.

¹³² See, e.g., *Ex parte Fisher*, Patent and Trademark Office Board of Patent Appeals and Interferences Appeal No. 2002-2046, at 19, 22 (Mar. 31, 2004).

Several commentators have written that *Brenner* precluded the patenting of basic research tools, such as ESTs. See, e.g., Summers, *supra* note 122, at 479 ("In *Brenner v. Manson*, the Supreme Court maintained that the claimed invention must possess utility beyond being a basic tool for future research."); Lech, *supra* note 122, at 1642 ("The *Brenner* Court specifically denied patent protection to inventions whose only utility resided in their use in experimental research . . ."). *Brenner* did no such thing. The Supreme Court held in that case that a composition did not have utility merely because scientists might have a reasonable interest in performing research on the composition itself. The Court said nothing about the patentability of the *tools* used to perform research on the composition.

¹³³ The *Brenner* majority held that a chemical composition "whose sole 'utility' consists of its potential role as an object of use-testing" does not have substantial utility. *Brenner v. Manson*, 383 U.S. 519, 535 (1966). Writing for the dissent, Justice Harlan disagreed, noting that:

Chemistry is a highly interrelated field and a tangible benefit for society may be the outcome of a number of different discoveries, one discovery building upon the next. To encourage one chemist or research facility to invent and disseminate new processes and products may be vital to progress, although the product or process be without 'utility' as the Court defines the term, because that discovery permits someone else to take a further but perhaps less difficult step leading to a commercially useful item. In my view, our awareness in this age of the importance of achieving and publicizing basic research should lead this Court to resolve uncertainties in its favor and uphold the respondent's position in this case.

Id. at 539 (Harlan, J., dissenting). Given the steep advances in the field of Chemistry over the last several decades, it is at least an open question as to whether the Supreme Court would adopt Justice Harlan's dissenting view if asked to revisit the issue presented in *Brenner*.

¹³⁴ Nor is the PTO's treatment of ESTs justified in view of the Federal Circuit's decision in *In re Ziegler*, 992 F.2d 1197 (Fed. Cir. 1993). In that case, the court found that a claimed polypropylene lacked utility even though it could be pressed into a film because "Ziegler did not assert any practical use for the polypropylene or its film, and Ziegler did not disclose any characteristics of the polypropylene or its film that demonstrated its utility." *Id.* at 1203. By contrast, ESTs have utility as research tools, not as mere intermediates used to generate a substance of no known value.

2. The PTO's "Further Research" Argument.

Second, the PTO contends that any benefits derived from the use of an EST cannot be deemed "substantial" to the extent that "further research" is required to make sense of the information derived from the use.¹³⁵ The PTO's rationale, however, overlooks the series of Federal Circuit decisions holding that the need to conduct additional research to determine the significance of results obtained from the use of a compound in no way precludes a finding of utility.¹³⁶ In fact, those cases make abundantly clear that an "immediate benefit to the public" results from the use of a composition - like an EST - that "marshal[s] resources and direct[s] the expenditure of effort" for the very purpose of allowing *additional testing*.¹³⁷

3. The PTO's "Single Data Point" Argument

Third, the PTO argues that ESTs lack patentable utility, in part, because the use of a single EST (e.g., as a molecular marker or to measure mRNA levels) results in just "a single data point among thousands or millions" and that "even if the thousands or millions of data points collectively are useful, [a single data point derived from a single EST] does not meet [the substantial utility] standard."¹³⁸ However, the authors of this article are unaware of any case - and the PTO has pointed to none - holding that a research tool lacks patentable utility simply because it provides just one data point among many others, or because the results derived from that tool must be used in connection with other data to be completely meaningful.

Indeed, if accepted, the PTO's rationale would have a profound impact on the patentability of numerous legitimate inventions that require the combination of multiple components or pieces of data to be completely useful. For example, if taken to its logical extreme, the Board's reasoning would preclude the patenting of inventions ranging from basic (e.g., a single LEGO block) to complex (e.g., gene mapping, surface mapping, CAD modeling, or semiconductor fabrication systems) simply because those applications require the combination of many other components or data points to work and have value. For obvious reasons, this is not the law.

4. The PTO's "Tragedy of the Anticommons" Argument

Finally, the PTO recently has relied upon a "tragedy of the anticommons argument" to justify the rejection of EST patent applications on utility grounds. That argument contends that, because ESTs are basic research tools that must be used in connection with thousands of other ESTs to have any meaningful value (e.g., in a microarray), the widespread patenting of ESTs will force scientists to conduct thousands of patent searches, and to negotiate and acquire thousands of patent licenses, prior to initiating even the most basic genetic research using ESTs.¹³⁹

The PTO's "anticommons" argument is flawed in at least two key respects. First, even if the premise underlying the theory is accepted as true, the PTO has no legal authority to declare certain technologies outside the scope of the patent laws based on considerations of patent searching or licensing burdens. Congress, which has refused to take any course of action on the issue despite more than a decade of intense debate about the patenting of ESTs, alone is charged with that task.

Second, the need to conduct extensive patent searches and obtain licenses is in no way unique to ESTs. Rather, the PTO's "anticommons" argument applies just as equally to - and, therefore, if accepted, would preclude the patenting of - many other technologies that require the use of a substantial number of patented products and processes to work (e.g., semiconductor

135 See MPEP Section 2107.01, at 2100-32 (describing "examples of situations that require or constitute carrying out further research to identify or reasonably confirm a 'real world' context of use and, therefore, do not define 'substantial utilities'").

136 In those cases, the Federal Circuit held that the utility requirement of Section 101 can be met by compounds claiming a pharmacological effect in humans, even in the absence of evidence showing an *in vivo* pharmacological activity, and even though further research was required to prove any benefit for *in vivo* use. See *Cross v. Iizuka*, 753 F.2d 1040, 1051 (Fed. Cir. 1985) (holding that information derived from *in vitro* test results were sufficient to meet the requirement of substantial utility); *In re Jolles*, 628 F.2d 1322, 1327 (C.C.P.A. 1980) (finding utility without evidence of *in vivo* results); *Nelson v. Bawler*, 626 F.2d 853, 856 (C.C.P.A. 1980) (same).

137 *Cross*, 753 F.2d at 1051. *Accord Nelson*, 626 F.2d at 856.

138 *Ex parte Fisher*, Patent and Trademark Office Board of Patent Appeals and Interferences Appeal No. 2002-2046, at 23 (Mar. 31, 2004).

139 See, e.g., *Ex parte Boukharov*, Patent and Trademark Office Board of Patent Appeals and Interferences Appeal No. 2003-1746, at 22 (June 30, 2004).

manufacturing). Therefore, to find that a “tragedy of the anticommons” argument justifies a ban on the patenting of ESTs, but not other similarly situated inventions, not only conflicts with established law, but also collides with common sense.

VI. ESTS INHERENTLY MEET THE UTILITY REQUIREMENT OF 35 U.S.C. SECTION 101.

Under a proper application of the law, there is no question that *all* ESTs satisfy the threshold for utility established by Section 101 - which “is not high.”¹⁴⁰ ESTs are important research tools that can be put to a variety of specific, substantial, and commercially beneficial uses beyond mere use-testing. In other words, they have legal utility.

A. All ESTs Satisfy The “Specific Benefit” Prong of the Federal Circuit’s Utility Analysis

All ESTs meet the first prong of the Federal Circuit’s utility analysis: They provide the public with a number of specific, identifiable benefits that are not vague or unknown. Unlike the chemical process and the resulting compound at stake in *Brenner*, which had no known identifiable use other than as a subject of further scientific research, *all* ESTs necessarily correspond to a specific gene with a *knowable* function. Furthermore, all ESTs can be used as valuable research tools in connection with a host of scientific applications, including to: (1) serve as molecular markers on a genetic or physical map; (2) identify the presence or absence of a polymorphism; (3) measure the level of mRNA in a sample; (4) serve as a source for primers; (5) isolate promoters; (6) control the expression levels of protein; and (7) locate genetic molecules of other plants and organisms.

Each of these disclosed uses is “identifiable” and specific to a particular EST. In fact, because each EST uniquely corresponds to a specific gene segment, no other EST can be utilized for exactly the same purposes.¹⁴¹ Accordingly, every EST meets the specificity prong of the Federal Circuit’s substantial utility analysis.¹⁴²

B. All ESTs Satisfy the “Substantial Benefit” Prong of the Federal Circuit’s Utility Analysis.

All ESTs further satisfy the “substantial benefit” prong of the Federal Circuit’s utility analysis - including ESTs that correspond to genes or proteins of unknown function. As a matter of scientific reality, when used as research probes to screen genetic samples for particular genes and gene fragments of interest, ESTs provide the public with a number of measurable benefits, including to:

- Serve as molecular markers for genes of interest, thereby assisting scientists to navigate through complex physical and genetic maps detailing the millions or billions of base pairs found in particular genomes;¹⁴³
- Determine the presence or absence of polymorphic variations between two or more populations of genetic samples, which, among other things, provides scientists with important information for use in marker-assisted breeding and studying the nature of any shared genetic heritage between the samples;¹⁴⁴
- Detect and monitor the quantitative levels and patterns of mRNA found in a particular cell or tissue sample, thus providing information pertinent to detecting expression changes in traits of interest;¹⁴⁵

¹⁴⁰ See *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364, 1366 (Fed. Cir. 1999).

¹⁴¹ As noted above, the Manual of Patenting Examining Procedure (MPEP) defines “specific utility” as a utility that “is *specific* to the subject matter claimed,” and contrasts it with “a *general* utility that would be applicable to the broad class of the invention.” MPEP Section 2107.01 (emphasis added). Because each EST uniquely corresponds to a particular segment of a particular gene, the utilities derived from an EST are not shared by any “broad class” of ESTs.

¹⁴² See *Juicy Whip*, 185 F.3d at 1366 (“An invention is ‘useful’ under section 101 if it is capable of providing *some identifiable benefit*.”) (emphasis added); *Nelson v. Bowler*, 626 F.2d 853, 856 (C.C.P.A. 1980) (finding that utility exists where “one skilled in the art can use a claimed discovery in a manner which provides *some immediate benefit* to the public”) (emphasis added).

¹⁴³ See *supra* Section II(C)(1).

¹⁴⁴ See *supra* Section II(C)(4).

¹⁴⁵ See *supra* Section II(C)(2).

- Serve as a source for synthetic PCR primers to enable the rapid and inexpensive duplication of a specific target gene;¹⁴⁶
- Isolate promoters (such as the promoter of the genes corresponding to the claimed ESTs) by, for example, initiating a chromosome walk;¹⁴⁷
- Modulate the expression levels of a gene to allow study of protein expression patterns and gene/protein function;¹⁴⁸ and
- Isolate nucleic acid molecules found in other organisms to allow comparative studies of located genes and their functions between organisms.¹⁴⁹

Each of these uses furnishes the field of genetic science with *substantial* benefits that are capable of realization in the real world - regardless of the level of knowledge concerning the function of the underlying gene.¹⁵⁰

As a practical matter, acceptance of the PTO's heightened utility standard would mean that other research tools of unquestionable and critical value to the scientific community similarly lack substantial utility. For example, in a number of key respects, ESTs are directly analogous to research tools such as microscopes, telescopes, and screening assays, all of which can be utilized to study, locate, and generate scientific data about samples with currently unknown properties. It would make little sense to conclude - as the logic of the PTO effectively requires - that a microscope has substantial utility when used to observe or analyze a sample of known function, but lacks substantial utility when used to observe or analyze a sample of unknown function. In fact, research tools arguably have even greater value when used to probe, examine, and understand the properties of a sample with an unknown function.

The same holds true here. When used as a probe to screen a genetic sample, every EST can be used like a microscope to locate, study, and derive information about a particular gene or gene fragment. That the gene under examination has no known function does not change this result. Like a microscope, regardless of whether used to examine genes of *unknown* function now, or genes of *known* function at some later date, ESTs serve specific, substantial, and scientifically valuable purposes. They have utility.

C. The Patentable Utility of ESTs is Further Confirmed by Considerations of Commercial Success.

As the Supreme Court noted decades ago in *Brenner*, the test for utility reflects the close relationship of the patent system "to the world of commerce rather than to the realm of philosophy."¹⁵¹ For that reason, "[p]roof of . . . utility is further supported when . . . the inventions . . . have on their merits been met with commercial success."¹⁵² This nexus between utility and commercial success exists because "[p]eople rarely, if ever, appropriate useless inventions."¹⁵³

The utility of ESTs is not merely an abstract exercise in "the realm of philosophy." Rather, a vast industry has developed in the commercial marketplace for ESTs, including for ESTs that code

146 See *supra* Section II(C)(3).

147 See *supra* Section II(C)(5).

148 See *supra* Section II(C)(6).

149 See *supra* Section II(C)(7). The Federal Circuit has recognized that each of these disclosed uses must be presumed to be specific and substantial in the absence of evidence to the contrary. See *In re Brana*, 51 F.3d 1560, 1566 (Fed. Cir. 1995).

150 See, e.g., *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364, 1366 (Fed. Cir. 1999) (holding that "substantial utility" standard is met by an invention that "is capable of providing *some identifiable benefit*"); *Nelson v. Boulter*, 626 F.2d 853, 856 (C.C.P.A. 1980) (holding that substantial utility merely requires that "one skilled in the art can use a claimed discovery in a manner which provides *some immediate benefit* to the public") (emphasis added).

151 See *Brenner v. Manson*, 383 U.S. 519, 536 (1966) (quoting *In re Rushing*, 343 F.2d 965, 970 (C.C.P.A. 1965)).

152 See *Raytheon Co. v. Roper Corp.*, 724 F.2d 951, 959 (Fed. Cir. 1983). Nevertheless, commercial success is not a necessary element of utility: "development of a product to the extent that it is presently commercially salable in the market place is not required to establish 'usefulness' within the meaning of Section 101." *In re Langer*, 503 F.2d 1380, 1393 (C.C.P.A. 1974).

153 *Raytheon*, 724 F.2d at 959. *Accord In re Langer*, 503 F.2d at 1393.

genes of unknown function. Numerous well-known biotechnology and genomics companies have dedicated substantial time, effort, and financial resources to research, discover, and utilize ESTs with respect to a variety of organisms. Many of these same companies have collectively derived hundreds of millions of dollars in revenues from licensing databases of ESTs that correspond to genes both of known *and* unknown function. For example:

- By 2000, Human Genome Sciences had obtained more than \$265 million in licensing fees and royalty payments from a number of large pharmaceutical companies for access to its proprietary EST databases;¹⁵⁴
- Incyte Pharmaceuticals reported 1998 revenues from subscriptions to its EST databases at \$105.6 million,¹⁵⁵ and by 2000 had “signed up eleven companies for amounts ranging from \$20 million to \$25 million per client plus royalties”;¹⁵⁶
- DuPont signed a five-year deal with Lynx Therapeutics to use Lynx’s technology to organize Dupont’s extensive crop EST databases and to provide genomic maps for crops in an effort to improve yield and agronomic traits such as drought tolerance;¹⁵⁷
- Celera Genomics has licensed its “Human Gene Index” EST database to companies such as Amgen, Inc.,¹⁵⁸ Novartis,¹⁵⁹ and Pharmacia & Upjohn¹⁶⁰ to, among other things, “enable and accelerate ... [the] identification of novel genes and factors that regulate and control gene expression”;¹⁶¹
- Gene Logic, Inc. licenses its EST databases to numerous companies such as Procter & Gamble Pharmaceuticals¹⁶² and Organin, N.V.,¹⁶³ and in 1999 entered into an agreement with Affymetrix, Inc. to build a large commercial EST database for drug development;¹⁶⁴ and
- Exelixis Pharmaceuticals Inc. and Bayer AG entered into a collaboration agreement in 1998 that gives Bayer a license to Exelixis’s “FlyTag” Drosophila EST database and obligates Exelixis to develop new pest species EST databases for Bayer.¹⁶⁵

ESTs also are used for the study of gene expression in the burgeoning field of microarray analysis.¹⁶⁶ According to recent reports, the global microarray market is poised to grow to nearly \$1 billion in annual revenues by 2010.¹⁶⁷

It runs contrary to common sense to think that sophisticated corporations and knowledgeable scientists would dedicate hundreds of millions of dollars to an industry based upon

154 See Holman, *supra* note 10, at 754-55.

155 Press Release, Incyte Pharmaceuticals, Inc., Incyte Reports Year-end Results and 1999 Financial Targets, Announces Decision not to Pursue Tracking Stock Vehicle (Feb. 3, 1999), <http://www.incite.com/news/1999/pharmacia.html>.

156 See Holman, *supra* note 10, at 755.

157 Jim Shrine, *Lynx, Dupont Sign \$60M Deal for Crop Genomics*, *BIO WORLD TODAY*, Nov. 6, 1998.

158 Press Release, Perkin-Elmer, Perkin-Elmer’s Celera Genomics to Provide Amgen Access to New Database Products (Jan. 12, 1999), <http://www.perkin-elmer.com/press/prc5506.html>.

159 Press Release, Perkin-Elmer, Celera Genomics Enters into Five-Year Database Agreement with Novartis (Apr. 19, 1999), <http://www.perkin-elmer.com/press/prc5544.html>.

160 Press Release, Perkin-Elmer, Celera Genomics and Pharmacia & Upjohn Enter into Five-Year Subscription Agreement for Celera Database Products (Mar. 17, 1999), <http://www.perkin-elmer.com/press/prc5539.html>.

161 Press Release, *supra* note 159.

162 Press Release, Gene Logic, Gene Logic, Procter & Gamble Pharmaceuticals Expand Drug Discovery Collaboration (Dec. 14, 1998), <http://www.genelogic.com/PR-PGExpansion.htm>.

163 Press Release, Gene Logic, Gene Logic and Organon Enter Gene Expression Database Alliance (Jan. 8, 1997), <http://www.genelogic.com/PR-Organon.htm>.

164 Press Release, Gene Logic, Gene Logic to Use Affymetrix Genechip Arrays to Build Gene Expression Database Product (Jan. 11, 1999), <http://www.genelogic.com/PR-GeneChip.htm>.

165 Press Release, Exelixis Pharmaceuticals, Inc., Exelixis Pharmaceuticals Delivers Target for Screening to Bayer AG (Apr. 1, 1999), http://www.exelixis.com/text/news/releases/99news/04_01.htm.

166 Microarrays display ordered sets of data points that correspond to known DNA molecules. Scientists can use microarrays to detect thousands of genes in a small sample simultaneously, and to analyze the expression of those genes. See SNUSTAD & SIMMONS, *supra* note 15, at 536-38.

167 See, e.g., Frost & Sullivan, *Strategic Analysis of World DNA Microarray Markets*, Report A776 (Mar. 2004).

useless items of commerce. Just as “[p]eople rarely, if ever, appropriate useless inventions,”¹⁶⁸ people rarely, if ever, invest hundreds of millions of dollars in industries built upon useless inventions. The undeniable existence of a significant industry directed to the usefulness of ESTs only further confirms that ESTs meet the minimal utility requirement of 35 U.S.C. Section 101.¹⁶⁹

VII. CONCLUSION

In the last decade, ESTs have emerged as important and commercially valuable research tools in the field of genetics. For more than a decade, however, intense controversy has surrounded the patenting of ESTs. The PTO simply does not have the power to treat Congress’ silence on the issue as a license to resolve the EST debate on its own by imposing a heightened utility requirement that all but precludes the patenting of ESTs. The PTO should apply the minimal standard of utility to ESTs, just as it does to all other inventions - a threshold that *all* ESTs satisfy given their inherent usefulness as research tools.

¹⁶⁸ *Raytheon Co. v. Roper Corp.*, 724 F.2d 951, 959 (Fed. Cir. 1983).

¹⁶⁹ In recent cases, the PTO has suggested that the success of the EST industry lacks probative value because the industry “is premised on . . . the potential usefulness of EST databases, clone sets or microarrays” and “the claims on appeal are not directed to EST databases, clone sets and/or microarrays.” *Ex parte* Fisher, Patent and Trademark Office Board of Patent Appeals and Interferences Appeal No. 2002-2046, at 24 (Mar. 31, 2004). Of course, the databases, clone sets, and microarrays would be useless without each of the individual ESTs. Indeed, the PTO itself has recognized as much in other cases by allowing patents to issue for inventions directed to a single component that plainly must be used with other components to have any meaningful commercial value - for example, a patent on a single LEGO block. *See, e.g.*, U.S. Patent No. Des. 328,929 (issued Aug. 25, 1992).

Moreover, by general operation of the PTO’s own rules applicants are precluded from claiming more than 10 ESTs in a single application. *See* MPEP Section 803.04. The PTO cannot have it both ways. Having precluded applicants from claiming all ESTs properly disclosed in a patent application, the PTO should not be permitted to ground a lack of utility finding on the fact that a claim is directed to only a handful of ESTs.

DIVIDED INFRINGEMENT CLAIMS

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I. INTRODUCTION

Patent law is territorial. It is also designed to deal with the circumstance of unified infringement by a single actor. But modern commerce is not limited by national boundaries or by corporate forms. Patents written to cover modern technologies, particularly network computing technologies, are attempting to bring the distributed acts of different users around the globe into the ambit of a territorial legal system that looks for a single infringer. Not surprisingly, the effort to do so has created significant problems for patent cases.

This article focuses on two examples of what we call “divided” or “distributed” claims: multi-user and multi-jurisdictional claims. These claims exist where patents are infringed only by aggregating the conduct of more than one actor or conduct that occurs in more than one country, respectively. Patent law doesn’t deal well with either class of divided patent claim. Prosecutors and litigators need to be aware of these problems in order to most effectively represent their clients.

II. MULTI-USER CLAIMS

A person may invent a new and useful process that requires steps (a) and (b) of a claimed process to be performed by one person and step (c) to be performed by another person. These distributed or divided patent claims are surprisingly common, particularly in the field of computer networking, where a patented process may involve some steps performed on the client side and others performed on the server side.¹ If the claim is not drafted carefully, the invention may fulfill every requirement for patentability but, given the statutory scheme of infringement, the patent may leave its owner without a remedy.

Liability for infringement is governed by the text of the patent statute.² The statute creates a cause of action for both direct and indirect infringement.³ Section 271(a) governs direct infringement. Indirect infringement is governed by sections 271(b)⁴ and (c),⁵ which define inducement and contributory infringement, respectively.

Where one person does not perform each and every step of the claimed process, no person directly infringes the claim. Section 271(a) imposes liability on “whoever without authority makes, uses, offers to sell or sells any *patented invention*” Accordingly, only the practice of each and

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1 See, e.g., U.S. Patent No. 6,421,726 (issued July 16, 2002) (claiming a method that caches and serves a media file from a Web page in which the network attributes are selected by the caching provider, but a page linking to that media file is served by the Web-page provider. To the extent it is relevant, Kecker & Van Nest LLP was involved in the litigation of this patent on behalf of Speedera Networks.).

2 N. Am. Philips Corp. v. Am. Vending Sales Inc., 35 F.3d 1576, 1579, 32 U.S.P.Q.2d (BNA) 1203, 1205 (Fed. Cir. 1994) (“[T]he cause of action for patent infringement is created and defined by statute.”).

3 35 U.S.C. Section 271(a) (2001) (providing that “whoever without authority makes, uses, offers to sell or sells any patented invention . . . infringes the patent”).

4 35 U.S.C. Section 271(b) (2001) (providing that “[w]hoever actively induces infringement of a patent shall be liable as an infringer”).

5 35 U.S.C. Section 271(c) (2001) (providing that, for parts relevant to patented processes, “within the United States . . . a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer”).

every step of the claimed method constitutes direct infringement.⁶ Similarly, a process or method claim is “directly infringed only when the process is performed.”⁷

Where a defendant participates in infringement but does not directly infringe the patent, the normal recourse under the law is to indirect infringement. But “indirect infringement, whether inducement to infringe or contributory infringement, can only arise in the presence of direct infringement.”⁸ For example, in *Dynacore Holdings Corp. v. U.S. Philips Corp.*, the plaintiff had sued more than a dozen companies whose products, it alleged, could be used in a manner that indirectly infringed its patent. However, the Federal Circuit held that because the plaintiff could not show that either the named defendants or their customers directly infringed the patent in suit, it could not “even reach the question of the defendants’ vicarious liability for indirect infringement.”⁹

The patent laws thus leave a hole in the statutory infringement scheme in the case of divided patent claims. No cause of action for infringement may lie unless some person performs each and every step of a claimed process. Yet, some patents claim new and useful inventions that cannot be performed by one person. Who, if anyone, is liable in such a case?

A few courts have sought to fill part of this statutory hole by permitting suits under a theory akin to inducement, where one party was responsible for directing others to perform the steps of the patented process.¹⁰ Under this theory, courts have imposed liability for direct infringement where another person acts as an agent of the alleged infringer, in effect aggregating the conduct of defendants acting in concert for liability purposes. For example, in *Shields v. Halliburton Co.*, two defendants between them performed all of the steps of a claimed process, but no single defendant performed each and every claimed step.¹¹ Yet, because “[i]nfringement of a patented process or method *cannot be avoided by having another perform one step of the process or method*,” the court found the claims “singularly and jointly infringed by defendants” where one had instructed the other to perform the infringing steps.¹² Likewise, in *Mobil Oil Corp. v. W. R. Grace & Co.*, the court held that “defendant, in effect, made each of its customers *its agents* in completing the infringement step, *knowing full well that the infringement step would in fact be promptly and fully completed by those customers.*”¹³

These two district court cases are the exception rather than the rule, however. More typical are cases in which a single party does perform all the steps of the patent at the direction of another. Thus, in *Crowell v. Baker Oil Tools, Inc.*, the Ninth Circuit reasoned that:

It is obvious that one may infringe a patent if he employ [sic] an agent for that purpose or have [sic] the offending articles manufactured for him by an independent contractor. We do not agree that it is necessary that appellant himself be a manufacturer of the alleged infringing devices or that he have [sic] machinery or manufacturing facilities or employees to make them or a written or an oral contract for supplies for such manufacture.¹⁴

6 See *Canton Bio-Medical, Inc. v. Integrated Liner Techs., Inc.*, 216 F.3d 1367, 1370, 55 U.S.P.Q.2d (BNA) 1378, 1379 (Fed. Cir. 2000); *Gen. Foods Corp. v. Studiengesellschaft Kohle mbH*, 972 F.2d 1272, 1274, 23 U.S.P.Q.2d (BNA) 1839, 1840 (Fed. Cir. 1992); *Roberts Dairy Co. v. United States*, 530 F.2d 1342, 1354, 182 U.S.P.Q. (BNA) 218, 225 (Ct. Cl. 1976).

7 *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 773, 28 U.S.P.Q.2d (BNA) 1378, 1381 (Fed. Cir. 1993).

8 *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1272, 70 U.S.P.Q.2d (BNA) 1369, 1375 (Fed. Cir. 2004).

9 *Id.* at 1277, 70 U.S.P.Q.2d (BNA) at 1379.

10 On inducement, see Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. (forthcoming 2005); Recent Cases, *Patent Law - Active Inducement of Infringement - District Courts Hold That Inducement Liability Requires Proof of Intent to Induce Violation of the Law*, 115 HARV. L. REV. 1246 (2002).

11 493 F. Supp. 1376, 1389, 207 U.S.P.Q. (BNA) 304, 315 (W.D. La. 1980) (noting that: “[o]n Freeport, the actual grouting operation was conducted by Halliburton which was assisted by Brown and Root employees on the platform. On Marathon, Halliburton again performed the grouting operations and the employees of Brown and Root who were on the platform assisted by controlling and bleeding off the air pressure as Halliburton pumped grout. At least one of the legs of each platform was grouted successfully using the procedures of RE 28,232.”).

12 *Id.*, 207 U.S.P.Q. (BNA) at 316 (emphasis added); see also *Ralston Purina Co. v. Far-Mar-Co, Inc.*, 586 F. Supp. 1176, 1226, 222 U.S.P.Q. (BNA) 863, 902 (D. Kan. 1984), *aff’d in part*, 772 F.2d 1570, 227 U.S.P.Q. (BNA) 177 (Fed. Cir. 1985) (“It is well settled that a party cannot avoid infringement merely by having a third party practice one or more of the required steps. Defendant maintains or controls the pH of the soybean starting material used in its process within the meaning of the asserted claims.”); *Metal Film Co. v. Milton Corp.*, 316 F. Supp. 96, 110 n.12, 167 U.S.P.Q. (BNA) 267, 278 n.12 (S.D.N.Y. 1970) (“That defendants choose to have the vacuum metallizing, which was a conventional step . . . done by outside suppliers does not mitigate their infringement of the overall process.”).

13 367 F. Supp. 207, 253, 180 U.S.P.Q. (BNA) 418, 450 (D. Conn. 1973) (emphasis added).

14 *Crowell v. Baker Oil Tools, Inc.*, 143 F.2d 1003, 1004, 62 U.S.P.Q. (BNA) 176, 177 (9th Cir. 1944).

It is worth noting that *Crowell* did not actually involve a divided claim at all, but rather a single act of infringement by a contractor at the direction of the defendant. As the court noted in *E.I. DuPont De Nemours and Co. v. Monsanto Co.*, these cases establish that a person “cannot avoid liability for infringement of [a] process patent by paying [another] to practice step (a) of the patented process for it.”¹⁵ They are thus consistent with the policy behind Section 271(f), which seeks to prevent a defendant from inducing infringement while avoiding liability by having portions of a device made overseas and then combined into an infringing product.¹⁶ The courts themselves don’t generally distinguish between direct infringement and inducement, finding that the parties are part of a collaborative scheme directed by one of them to cause infringement.¹⁷

But these cases do not resolve the issue of truly divided claims, because they deal only with the relatively straightforward case in which a single defendant seeks to avoid liability for an infringing act by employing agents to perform the steps of the patented process. Where there is no agency relationship or similar coordination - for example where the different actors do not know each other at all, or are in an arm’s-length business transaction - courts have not been willing to apply the law of inducement to aggregate the disparate acts of unrelated parties. Courts require proof of a sufficient connection between the coordinator and the entity performing the steps that the coordinator, “through its connection with the entity performing only part of the process, is in actuality performing the combination of each and every step of the claimed method.”¹⁸ This is a rather strict standard, contemplating almost an alter ego and certainly not a mere customer relationship. This reluctance stems from the language of Section 271(b),¹⁹ which requires an act of direct infringement and permits liability only where “specific intent and action to induce infringement” are found.²⁰

For example, in *Faroudja Laboratories, Inc. v. Dwin Electronics, Inc.*,²¹ the patent covered a method for improving television image quality by converting films to TV signals and then doubling the number of scan lines.²² The defendant sold a line-doubler that worked with televisions.²³ Movie studios converted films into television signals before broadcasting those films; home viewers doubled the number of scan lines when they viewed a movie.²⁴ But while all the steps of the patented method were performed, no one entity performed them. Nor was it the case that the defendant sold its line-doubler with instructions teaching buyers how to make infringing use. The problem was that the claim was divided - three different actors had to come together to perform the method, and there was no central entity coordinating their actions. The court concluded that no one was liable for direct infringement because no one actually performed all the steps of the patented method.²⁵ The court in *E. I. DuPont De Nemours and Co. v. Monsanto* similarly found no direct infringement in such a divided claim situation.²⁶ And the Ninth Circuit in dictum has expressed doubts about whether anyone can be held liable in such a situation.²⁷

While these decisions seem unfair at first glance, because they create a right without a remedy, they in fact serve an important policy purpose. Direct infringement is a strict-liability offense, but it is limited to actually performing all the steps of a patented process. By contrast, indirect liability requires evidence of “specific intent” to induce infringement,²⁸ or knowledge that a good is specially adapted for aiding infringement and has no other use.²⁹ Construing the patent laws

15 903 F. Supp. 680, 735 (D. Del. 1995).

16 35 U.S.C. Section 271(f) (2001). We discuss this section in more detail in our analysis of international infringement issues, *infra* Part IV.A.

17 Courts periodically speak of “joint and several liability” for patent infringement. See, e.g., *Thomson-Houston Elec. Co. v. Ohio Brass Co.*, 80 F. 712, 721 (6th Cir. 1897). But in context it seems clear that they are not creating a new theory of joint infringement but making the familiar point from tort law that once infringement has been proven, all those liable for that infringement must share their liability jointly and severally, rather than apportioning fault.

18 *Marley Mouldings Ltd. v. Mikron Indus., Inc.*, No. 02C 2855, 66 U.S.P.Q.2d (BNA) 1701, 1703 (N.D. Ill. Apr. 29, 2003); see also *Int’l Rectifier Corp. v. Samsung Elec. Co.*, 361 F.3d 1355, 1361 (Fed. Cir. 2004) (rejecting liability for “conspiracy to infringe” where there was no evidence that Samsung exercised control over IXYS, the importer of the infringing goods).

19 35 U.S.C. Section 271(b) (2001) (punishing only a person who “actively induces infringement”).

20 *Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1364, 65 U.S.P.Q.2d (BNA) 1481, 1491 (Fed. Cir. 2003).

21 No. 97-20010 SW, 1999 WL 111788 (N.D. Cal. Feb. 24, 1999).

22 *Id.* at *1.

23 *Id.* at *2.

24 *Id.* at *1.

25 *Id.* at *7; see *Cordis Corp. v. Medtronic Ave, Inc.*, 194 F. Supp. 2d 323, 349 n.19 (D. Del. 2002) (reading *Faroudja* as requiring “some connection” between the parties, but not specifying the strength of the connection).

26 903 F. Supp. 680, 734-35 (D. Del. 1995).

27 *Mobil Oil Corp. v. Filrotl Corp.*, 501 F.2d 282, 291-92, 182 U.S.P.Q. (BNA) 641, 648 (9th Cir. 1974).

28 *Heulett Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469, 15 U.S.P.Q.2d (BNA) 1525, 1529 (Fed. Cir. 1990); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553, 16 U.S.P.Q.2d (BNA) 1587, 1594 (Fed. Cir. 1990).

29 35 U.S.C. Section 271(c) (2001).

to permit the individual, non-infringing acts of unrelated parties together to add up to infringement would render both Section 271(b) and Section 271(c) meaningless. Section 271(b) provides that a party is liable if it knowingly induces another to infringe. But on a theory of joint infringement, no one need ever sue for inducement. All they need allege is that a party performed one of many steps of a method, and that someone else performed another step. No intent would be required.

The result would be to unreasonably expand liability for indirect infringement by conflating it with direct infringement. Consider a patent on a method of improving data delivery over the Internet. Both Dell Computer, which makes personal computers, and Verizon, which owns the telephone lines, make equipment that can be used - in combination with other devices and steps - to infringe that patent. Were a patent owner to allege that Dell and Verizon engaged in direct infringement because they supplied those devices, we have no doubt the courts would (properly) reject such a claim out of hand. Dell and Verizon are not themselves infringing. Nor are they instructing anyone else to infringe. They can be liable for supplying a device only in the limited circumstances of contributory infringement - where the device has no substantial use other than to infringe the patent.

The Federal Circuit has recognized the risk of expanding liability for direct infringement in this way. Indeed, in *Joy Technologies, Inc. v. Flakt, Inc.*, it refused to extend the scope of direct infringement to encompass providing a device that performs one step in a patented process because “[t]o hold that the sale of equipment which performs a patented process is itself a direct infringement would make that portion of Section 271(c) relating to the sale of an apparatus for use in practicing a patented process meaningless.”³⁰ Nor can they permit the patent holder to “control the distribution of unpatented articles unless they are unsuited for any commercial non-infringing use,” because the “sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer.”³¹

III. MULTI-JURISDICTIONAL CLAIMS

A. The Territorial Nature of Patent Law

Patent claims covering computer networks need not be distributed in the sense that the acts of more than one person are necessary to infringe. They may also be distributed in a geographic sense, requiring or permitting different steps of a patented process to occur in different locations. Indeed, permitting geographically distributed use is the very point of computer networks, so it is hardly surprising that networking patents might be practiced by aggregating work in different locations.

The United States Supreme Court held thirty-three years ago in *Deepsouth Packing Co. v. Laitram Corp.* that U.S. patent laws are territorially based and are not violated by overseas acts that would constitute infringement in the U.S.³² Though Congress repudiated *Deepsouth's* precise holding by promulgating Section 271(f), which imposes liability for manufacturing a substantial portion of a patented invention's components and having those components assembled overseas, the broader principle that animated the decision has historically influenced, and continues to influence, distributed patent infringement decisions.³³ Because patent law, unlike copyright, is territorial in nature, those who want worldwide protection must seek patents in multiple countries.³⁴

30 6 E3d 770, 774, 28 U.S.P.Q.2d (BNA) 1378, 1381 (Fed. Cir. 1993); see also *DuPont v. Monsanto*, 903 F. Supp. 680, 735 (D. Del. 1995) (“Similarly, in this case, it seems that if Monsanto were liable as a direct infringer under Section 271(a) for making and selling a component of the claimed process, then Section 271(c), which imposes liability for ‘sell[ing] a . . . material . . . for use in practicing a patented process’ would be superfluous.”). Strictly speaking, while such a reading would indeed make Section 271(c) superfluous, there might remain some room for operation of Section 271(b). Because inducement, unlike contributory infringement, need not involve any actual participation in the making of an accused device, liability for inducement would still be relevant in a joint infringement world in the situation in which a defendant directed another to infringe but did not itself participate at all in the act of infringement. But this is not the normal case of inducement, and, historically at least, inducement law reached further.

31 *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 441, 220 U.S.P.Q. (BNA) 665, 678 (1984) (quoting *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48 (1912)); see also *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1276 n.6, 70 U.S.P.Q.2d (BNA) 1369, 1378 n.6 (Fed. Cir. 2004) (citation omitted) (holding that the “sale of a lawful product by lawful means, with the knowledge that an unaffiliated, third party may infringe, cannot, in and of itself, constitute inducement of infringement”).

32 406 U.S. 518, 531, 173 U.S.P.Q. (BNA) 769, 774 (1972).

33 *Intl Rectifier Corp. v. Samsung Elecs.*, 361 F.3d 1355, 70 U.S.P.Q.2d (BNA) 1124 (Fed. Cir. 2004). For a general discussion of the territoriality principle, with specific application to the problem of international offers for sale, see Timothy R. Holbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701 (2004).

34 On the international nature of copyright law and the choice of law problems it presents, see Paul Edward Geller, *Conflicts of Laws in Copyright Cases: Infringement and Ownership Issues*, 51 J. COPYRIGHT SOC'Y USA 315, 337-38 (2004).

The territorial nature of patent law creates problems when applied to computer networking patents. Where those patents are practiced from locations in different countries, no one country's patent law may actually cover the infringing activity, even if the inventor owns patents in each relevant country.³⁵ The result may be a gap that seems parallel to the one we discussed in the last part: collectively, a patented invention is being practiced, but no country's laws may actually cover that activity.³⁶ The issue has come up several times in recent years.

B. Liability under 35 U.S.C. Sections 271(f) and (g)

The obvious place to start in considering international infringement is with 35 U.S.C. Sections 271(f) and (g) - the Congressional response to Deepsouth Packing. Section 271(f) reverses the precise holding of Deepsouth, providing that a defendant who ships physical components from the United States with the intent that they be combined abroad infringes the patent. Section 271(f), however, has proven difficult to apply in the computer environment. In *Pellegrini v. Analog Devices, Inc.*, the Court rejected a claim that Section 271(f) covered a defendant that designed components in the U.S. and transmitted instructions for manufacturing them overseas.³⁷ The Court reasoned that applying Section 271(f) to designs or instructions would eviscerate its at least implied requirement that physical components be shipped to or from the United States.³⁸ By contrast, the Federal Circuit came to the opposite conclusion the following year in *Eolas Technologies, Inc. v. Microsoft Corp.*³⁹ In that case, Microsoft had sent a "golden master" disk overseas and used that disk to make new copies of the infringing computer program for distribution abroad.⁴⁰ The Federal Circuit found that Microsoft was liable for infringement because the golden master disk that was shipped abroad itself contained the computer program, and thus necessarily contained all of its components.⁴¹ The court quite reasonably asserted that there was no reason to treat software inventions differently than mechanical or other physical inventions. Getting around Pellegrini presented a tougher problem. The court distinguished Pellegrini on the grounds that in that case the defendant exported data used abroad to design a physical thing, while in the Eolas cases the defendant exported data in the form of code used abroad to produce a computer program.⁴² This seems a weak point of distinction.⁴³

While Eolas suggests a move toward internationalization of U.S. patent liability, the line between it and Pellegrini can readily be gamed. Someone who wants to avoid a U.S. patent can design the invention in the U.S. and send instructions overseas, so long as the actual production and use of the invention occurs overseas. Further, because Section 271(f) does not apply to all process claims,⁴⁴ drafting claims in process form will make it even harder to apply them to international infringement. Even after Eolas, therefore, it is still possible to avoid infringement under Section 271(f) by offshoring.

Nor can the patentee prevent the benefits of a distributed software invention from returning to the United States. Section 271(g) protects patentees against foreign use of patented processes by making it illegal to import into the United States a product produced abroad by a

35 See *Zolek Corp. v. United States*, 62 U.S.P.Q.2d (BNA) 1366, 1368 (Cr. Cl. 2002) (holding that Section 1498(c), which applies patent law to the government but excludes "any claim arising in a foreign country," requires that the defendant have performed all the steps of the infringing process within the United States). Dan Burk recognized more than a decade ago that this problem was coming. See Dan L. Burk, *Patents in Cyberspace: Territoriality and Infringement on Global Computer Networks*, 68 TUL. L. REV. 1, 32 (1993). Now it's here.

36 A good example is *International Rectifier*, where the Federal Circuit refused to hold Samsung liable for the conduct of a third party, IXYS, in importing infringing products Samsung had helped make abroad. While Samsung was prohibited from making or selling the products in the United States, the district court's power to enjoin it did not extend outside the United States or to "conspiracies" to infringe a patent jointly. 361 F.3d at 1361.

37 375 F.3d 1113, 1117-18, 71 U.S.P.Q.2d (BNA) 1630, 1633 (Fed. Cir. 2004).

38 *Id.*

39 399 F.3d 1325, 1341 (Fed. Cir. 2005); see also *Imagexpo, LLC v. Microsoft Corp.*, 299 F. Supp. 2d 550, 553 (E.D. Va. 2003). For a discussion of *Microsoft*, see Donald S. Chisum, *Reforming Patent Law Reform*, 4 J. MARSHALL REV. INTELL. PROR. L. 336, 346-47 (2005).

40 *Eolas*, 399 F.3d at 1331.

41 *Id.* The logical conclusion of Eolas seems to be that Microsoft will be held liable for worldwide damages because it designed its program in the United States and shipped the actual program abroad. The court later so held in *AT&T Corp. v. Microsoft Corp.*, ___ F.3d ___, 2005 WL 1631112 (Fed. Cir. July 13, 2005). By contrast, had it designed the program abroad, it would be liable only for damages based on the importation of the program, if anything.

42 *Eolas*, 399 F.3d at 1331.

43 *But cf.* Alan M. Fisch & Brent H. Allen, *The Application of Domestic Patent Law to Exported Software*: 35 U.S.C. Section 271(f), 25 U. PA. J. INT'L ECON. L. 557, 571 (2004) (arguing for the distinction based on the court's refusal to apply Section 271(f) to process claims).

44 See, e.g., *Enpat, Inc. v. Microsoft Corp.*, 6 F. Supp. 2d 537, 539, 47 U.S.P.Q.2d (BNA) 1218, 1220 (E.D. Va. 1998); *Standard Havens Prods., Inc. v. Genco Indus., Inc.*, 953 F.2d 1360, 1374, 21 U.S.P.Q.2d (BNA) 1321, 1332 (Fed. Cir. 1991); *Synaptic Pharm. Corp. v. MDS Panlabs, Inc.*, 265 F. Supp. 2d 452, 464 (D.N.J. 2002). See also *NTR, Inc. v. Research in Motion, Inc.*, ___ F.3d ___, 2005 WL 1806123 (Fed. Cir. Aug. 2, 2005) ("it is difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by . . . section 271(f).").

process patented in the U.S. This might be thought to provide substantial protection against the use of a networking patent abroad to benefit users in the U.S. In *Bayer AG v. Housey Pharmaceuticals*,⁴⁵ however, the Federal Circuit held that Section 271(g) applied only to the importation of products, not data. It confirmed that result in *NTP, Inc. v. Research in Motion*.⁴⁶ As a result, the portions of the patent statute designed to deal with extraterritorial infringement will not provide effective protection against infringement over international computer networks.

C. Limited Extraterritoriality under 35 U.S.C. Section 271(a)

Courts have long recognized the potential unfairness of the limits on international patent infringement. Specifically, they have generally taken a relatively lenient approach to traditional types of distributed patent infringement by imposing liability for direct infringement under Section 271(a) where a significant portion of the accused system sits in the United States. An early example is *Rosen v. NASA*,⁴⁷ an interference proceeding that addressed reduction-to-practice of a patent application that claimed a communication satellite and an earth-based control point. The issue in dispute was whether the invention was reduced to practice in the U.S., since the satellite required by the application claims was in outer space.⁴⁸ The Court found persuasive a prior interference ruling that found an applicant had reduced to practice in the U.S. a claimed radio invention because “a substantial portion” of the “integrated instrumentality” was found in the U.S.⁴⁹ Specifically, two of four radio transmitter stations were in the U.S., the other two transmitter stations had initially been established by the U.S. on foreign soil per an intergovernmental agreement, and the receiving device was on a U.S. craft.⁵⁰ The *Rosen* court applied the “integrated instrumentality” test to find that the satellite control point’s location was enough to find the invention to have been reduced to practice in the U.S.⁵¹

Another example of a court finding liability after a fairly generous weighing of the accused instrumentality’s location can be found in *Decca Ltd. v. United States*.⁵² The *Decca* defendant sought to rebut the plaintiff’s infringement allegations against the defendant’s radio-navigation system by arguing that the system required three stations - one of which would always be overseas, to operate optimally - and issued broadcasts to craft outside the U.S.⁵³ The Court rejected this argument because the majority of stations were based in the U.S., the station equipment was made in the U.S., and the foreign stations would always have to synchronize with their U.S. counterparts.⁵⁴ The court focused on the fact that the claims emphasized receiving, not generating, the navigation signals. Put another way, while “use of United States territory is indispensable, . . . [t]he location of facilities in some foreign countries is also essential to the plan, but the selection of any single other country is, apparently, not essential.”⁵⁵

Most recently, the Federal Circuit held in *NTP v. Research in Motion* that a defendant engaged in an act of direct infringement of NTP’s system claims under Section 271(a) by employing a computer system that resided mostly in the United States, but with a critical part based in Canada. The court held that the system is “used” within the United States when two owners of Blackberry devices communicate with each other within the United States, even though one element of the system is performed outside the United States.⁵⁶ In so doing, the Federal Circuit followed *Decca* in focusing on “the place at which the system as a whole is put into service, i.e., the place where control of the system is exercised and beneficial use of the system obtained.”⁵⁷ It concluded that the “location of the use of the communication system as a whole” was within the U.S. because RIM’s customers sent and received their email messages from the U.S. A few other courts have found infringement

45 340 F.3d 1367, 1377-78, 68 U.S.P.Q.2d (BNA) 1001, 1008-09 (Fed. Cir. 2003).

46 ___ F.3d ___, 2005 WL 1806123 (Fed. Cir. Aug. 2, 2005).

47 152 U.S.P.Q. (BNA) 757, 758-59 (Bd. Pat. Inter. 1966).

48 *Id.* at 768.

49 *Id.* at 767.

50 *Id.*

51 *Id.* at 768.

52 544 F.2d 1070, 1083, 191 U.S.P.Q. (BNA) 439, 450 (Cr. Cl. 1976).

53 *Id.* at 1074, 191 U.S.P.Q. (BNA) at 442.

54 *Id.*

55 *Id.* at 1075, 191 U.S.P.Q. (BNA) at 443.

56 *NTP, Inc. v. Research in Motion, Ltd.*, ___ F.3d ___, 2005 WL 1806123 (Fed. Cir. Aug. 2, 2005).

57 *Id.* By contrast, the court held that the patentee’s *method* claims were not infringed: “a process cannot be used ‘within’ the United States as required by section 271(a) unless each of the steps is performed within this country.” *Id.*

based on multi-territorial conduct if the patentee managed to identify a critical part of an accused system with a U.S. nexus.⁵⁸

These courts have reached beyond the traditional territorial limits of patent law, and arguably ignored the intent of *Deepsouth Packing* to avoid an apparently inequitable result. In doing so, however, the courts have adopted a “locus of infringement” approach, under which the invention is deemed to exist in the country with the strongest connection to the invention.⁵⁹ The patents in *Rosen* and *Decca* were enforceable in the U.S., but for that very reason companion foreign patents would not be enforceable anywhere else. This locus has permitted the courts to achieve the results that seem equitable in the cases before them. But the test is subject to manipulation in the computer network environment, because a computer network system can be deliberately located primarily in a country where there is no patent, while users everywhere benefit from practicing the invention.

NTP could be read as going further, holding that a defendant commits an act of direct infringement wherever its networked product is used, regardless of where the network components themselves are located. If so, the legality of even a system wholly within one country would not be tested solely by the laws of that country, but rather by the laws of any jurisdiction whose resident logged on to use the system. But such a reading would put the Federal Circuit at odds not only with the Supreme Court’s *Deepsouth Packing* decision but also with the Court of Claims’ *Decca* decision on which *NTP* relied so heavily. We think that the case is better understood as reinvigorating the dormant line of “locus of infringement” cases, and that the court would limit its holding to cases in which the acts that collectively constitute infringement occurred primarily, though not exclusively, in the United States.

There are plausible policy reasons for trying to find a locus of infringement in a networked computing environment. First, patent law is not fully harmonized globally. Differing rules regarding priority disputes and the divesting effect of publication mean that an invention may be patented by one inventor in the U.S. and another in the rest of the world, or that an invention may be patentable in the U.S. but not in the rest of the world.⁶⁰ As a result, it is not always reasonable to treat patent rights as fungible internationally. Further, as we have seen in other legal fields, the worldwide scope of the Internet may lead to unreasonable liability by exposing anyone who engages in activity online to jurisdiction in hundreds of countries throughout the world.⁶¹ The locus-of-infringement approach seems a reasonable effort to compromise between a rule that would require all elements of a patented claim to be practiced in the same country - and thus make it impossible to enforce networking patents at all against distributing defendants - and a rule that would apply the patent law wherever any element was practiced, leaving a computer network operator vulnerable to suit in multiple jurisdictions throughout the world. But like the *Eolas-Pellegrini* line in Section 271(f), it is a compromise that can be gamed.

IV. PRACTICAL STRATEGIES FOR DEALING WITH DIVIDED CLAIMS

What should a lawyer do when confronted with either a divided patent claim or internationally distributed infringement? We distinguish between prosecution, litigation, and policy strategies.

58 See *Eolas Techs., Inc. v. Microsoft Corp.*, 274 F. Supp. 2d 972, 973-74, 70 U.S.P.Q.2d (BNA) 1937, 1939 (N.D. Ill. 2003), *aff’d Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005) (holding that sending a “golden master” disk of software source code overseas to load onto computers constituted an infringing act under Section 271(f)); *Hughes Aircraft Co. v. United States*, 29 Fed. Cl. 197, 226, 235-40, 29 U.S.P.Q.2d (BNA) 1974, 1995 (Fed. Cl. 1993) (holding that United States patent law reached spacecraft operating in outer space that were launched from the United States); *cf. N. Am. Philips, Corp. v. Am. Vending Sales*, 35 F.3d 1576, 1579, 32 U.S.P.Q.2d (BNA) 1203, 1205 (Fed. Cir. 1994) (“[T]he ‘tor’ of patent infringement occurs where the offending act is committed and not where the injury is felt.”).

59 In addition to the cases discussed above, *cf. MAGICorp v. Kinetic Presentations, Inc.*, 718 F. Supp. 334, 346 (D.N.J. 1989) (conducting a similar analysis to decide in which of two states infringement of a distributed computer system patent occurred). The *MAGICorp* court concluded that the patent was practiced where the “back end” server existed, not where the front end computers were accessed, and thus that venue was improper in New Jersey.

60 These anomalies result from the U.S. “first to invent” rule, compared to the “first to file” priority rule in the rest of the world; from the U.S. refusal to consider certain inventions that occur outside the U.S.; and from the one-year statutory grace period in the U.S. compared to the absolute novelty rule in Europe.

61 For example, Yahoo! was held subject to criminal liability in France for permitting individuals to sell Nazi memorabilia on its auction site, despite the fact that such conduct is unquestionably lawful in the U.S. See *Yahoo!, Inc. v. La Ligue Contre Le Racisme et L’Antisemitisme*, 169 F. Supp. 2d 1181, 1193-94 (N.D. Cal. 2001), *rev’d*, 379 F.3d 1120 (9th Cir. 2004). And Commonwealth courts have applied libel laws to U.S. publishers who post material online in ways that would violate the First Amendment in the United States.

A. Prosecution Strategies

For those preparing or prosecuting patent applications for inventions susceptible to disaggregation into re-locatable components or steps, the problems of divided or distributed infringement should be of significant concern. Computer networking and software inventions routinely present such challenges, and client- or service-centered claiming strategies have long been employed by those who focus on such technologies. It is important to note, however, that as communications technologies support ever increasing bandwidth, virtually any innovation that employs computation or decision-making is susceptible to placement of a particular component or step with an independent vendor or outside the U.S. in a way that may avoid traditional infringement remedies. In an increasingly outsourced world, applicants (and their counsel) should pay particular attention to these issues.

As detailed above, theories of infringement tend to run into two fundamental problems when applied to divided or distributed infringement. In particular:

- 1) Classic indirect infringement (i.e., liability based on acts that correspond to less than all elements of a claim) requires direct infringement by someone (based on acts that correspond to *all* elements of the claim).
- 2) Infringement under 271(a) cannot generally be based on an extraterritorial act. Liability “as an infringer” for extraterritorial acts arises, if at all, under sections 271(f) and (g) of the statute.

Sweeping statements in some district court opinions notwithstanding, legal theories that seek to attribute acts of one entity to another based on inducement by quasi-agents rest on questionable legal grounds. Accordingly, prosecutors and their clients are best served by understanding divided or distributed infringement problems and developing proactive claiming strategies to avoid these problems. How can this be accomplished? Several strategies make sense.

1. Draft Unitary Claims

First and foremost, it is important to recognize the risk that divided or distributed patent claims may leave the patentee with no remedy at all. Given such recognition, appropriate refinements to claiming strategies are often straightforward.

Most inventions that involve cooperation of multiple entities can be covered using claims drafted in unitary form simply by focusing on one entity and whether it supplies or receives any given element. Compare, for example, two different claims directed (roughly) to a method⁶² commonly employed in electronic commerce to secure communication between browsers and websites:

1. A method for negotiating a secure communications session, comprising
 - (a) transmitting a request to a server;
 - (b) in response to the request, supplying from the server a server certificate, the server certificate including the server's public key;
 - (c) generating at the client a unique client key and communicating the unique client key to the server using the server's public key; and
 - (d) thereafter communicating information using a crypto-algorithm that employs a derivative of the unique client key and the server's public key.

⁶² The reader may recognize the claimed subject matter as an abstraction and simplification of secure sockets layer (SSL) techniques developed by Netscape Communications to enable secure, authenticated communications across the Internet using public key encryption. SSL support is included as part of both the Microsoft and Netscape browsers and most Web server products.

2. A method for negotiating a secure communications session, comprising
 - (a) receiving a request from a client;
 - (b) in response to the request, supplying a server certificate, the server certificate including a public key;
 - (c) receiving from the client a unique client key communicated using the server's public key; and
 - (d) thereafter communicating information using a crypto-algorithm that employs a derivative of the unique client key and the server's public key.

Both claims seek to cover the same invention, but the first is distributed and the second is not, because the first requires that steps be performed by both the client and the server, while in the second only the server is performing any steps. As a result, the enforcement problems we discussed in the first part of this article arise for the first claim but not the second.

The international infringement problem adds some complexity. Claim 2 is infringed in only one location - the place where the server resides. While the unitary strategy played out in claim 2 reduces the risk that no single-entity infringer exists, a competitor could nonetheless avoid a U.S. patent by locating the server offshore. Accordingly, additional strategies come into play. In particular, a complementary version of the unitary claim should be drafted in an attempt to cover client-side acts performed in cooperation with such an offshore server. For example, consider the following client-centric claim:

3. A method for negotiating a secure communications session, comprising
 - (a) transmitting a request to a server;
 - (b) receiving from the server a server certificate including the server's public key;
 - (c) generating a unique client key and communicating the unique client key to the server using the server's public key; and
 - (d) thereafter communicating information using a crypto-algorithm that employs a derivative of the unique client key and the server's public key.

This claim covers the same process as claim 2, but here it is the client rather than the server that is performing the steps.

As a general matter, patentees prefer to be able to sue or license centralized rather than decentralized infringers, and drafting the claim to cover the server therefore normally seems more desirable to the patentee. But if the patentee worries that the server will be located offshore, drafting additional claims to capture the behavior of the client may solve the problem, because any client acting in the United States will be a direct infringer of the patent.

Furthermore, by succeeding in covering an actual direct infringer, the patentee may now have a basis for indirect infringement liability as well. For example, an indirect infringer may induce direct infringement by instructing or licensing the performance of the claimed client-centric method. Unlike in Sections 271(a) and (c), there is nothing in the language of Section 271(b) that requires that the act of inducement itself occur in the United States.⁶³ As a result, inducement may prove a powerful tool for reaching international uses of a computer network, provided that there is a direct

63 Under 35 U.S.C. Section 271(b) (2001), one who "actively induces infringement of a patent shall be liable as an infringer." Courts have read this to mean that "active inducement may be found in events outside the United States if they result in a direct infringement here." *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 1141, 184 U.S.P.Q. (BNA) 387, 390 (7th Cir. 1975) (citation omitted).

infringer within the United States. However, the strict intent requirement means that it is still not as effective as a claim for direct infringement. Alternatively, an indirect infringer may contribute to the direct infringement by selling, licensing, or importing software or a device especially adapted for use in the direct infringement.⁶⁴ Of particular note, such indirect infringement does not rely on questionable theories that seek to find inducement by performance of less than all method steps.

Once unitary claims have been drafted, an additional strategy to consider is international filing of such claims. However, the sheer number of jurisdictions in which some claims may be practiced can limit the practicality of this approach.

2. Articles and Machines, not just Methods

The unitary claiming strategies described above were applied to methods because of limitations on available remedies for divided or distributed infringement of method claims, most notably under Section 271(f). Similar, though slightly less severe, limitations may also apply to apparatus claims. However, several factors mitigate the problem for apparatus and article claims. First, physical objects typically accumulate the contributions of multiple actors, so in many situations, some act of making, using, selling, or importing will eventually correspond to the claimed apparatus, even if based originally on contributions from multiple parties. Direct and/or indirect infringement remedies may therefore be more readily available. Second, remedies for inducement of or contribution to overseas combination may be available when some or all components of a patented invention are supplied in or from the United States.⁶⁶ Finally, the limitations the Federal Circuit put on the extraterritoriality of method claims in *NTP* mean that system claims are far more likely to avoid distributed infringement problems.

Patent applicants should include in their coverage strategy claims directed to systems and, whenever possible, articles of manufacture.⁶⁷ Too often, applicants focus on methods of operation in their coverage strategies, sometimes to the exclusion of other, more useful, coverage. This can be a mistake because the multiple-entity infringement problems we have discussed arise primarily with respect to method claims. Of course, it is still possible to draft apparatus claims that create divided or distributed infringement problems, and basic unitary claiming strategies described above are applicable here as well. But it is much harder (though not impossible) to *accidentally* draft distributed patent claims to systems, and virtually impossible to draft distributed patent claims to articles of manufacture. Focusing on claims of this type will at the very least make it evident to prosecutors that they are drafting claims to piecemeal inventions, and should raise red flags.

3. Seek Coverage under 35 U.S.C. Section 271(g)

In general, patent applicants will be well served by seeking claim coverage designed to trigger infringement liability under 35 U.S.C. Section 271(g). In general, Section 271(g) results in liability for acts of importation or domestic sale or use of a product made by a patented process without a requirement that the process be performed in the United States.⁶⁸ As a result, Section 271(g) may, in effect, provide a patentee who has obtained appropriate method claims with coverage for some overseas exploitation of his invention.

In terms of the international infringement issues we have discussed herein, such coverage may turn out to be critical, particularly if the product made by the patented process is not itself novel. For this reason alone, patent applicants should seek to achieve such coverage whenever possible.

64 Under 35 U.S.C. Section 271(c) (2001), one who "offers to sell or sells within the United States or imports into the United States . . . a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement . . . shall be liable as a contributory infringer."

66 See 35 U.S.C. Section 271(f) (2001).

67 There is not always a choice, of course, but often a computer invention can be characterized in either process or system terms. In addition, article-of-manufacture coverage - including claims to computer program products that implement (at least partially) such a process or system or to articles including functionally descriptive information encodings) that are produced by such a process or system - should always be considered.

68 35 U.S.C. Section 271(g) (2001) provides: "Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent."

Further, a careful reader of the statute will recognize that there is no statutory requirement that the patented process be practiced outside the U.S. Accordingly, by its terms the statute can be read to cover acts of infringement resulting from exploitation of a patented process partly inside and partly outside the United States. Indeed, exploitation of a patented process wholly within the United States may result in liability based on a covered sale or use of a product made thereby.⁶⁹ Perhaps even more surprising is the possibility that liability may arise even if no one entity performs all steps of the patented process.⁷⁰

Section 271(g) is not a panacea. There are several substantial limitations on liability under this section. In particular, the statute includes an exhaustion-of-remedies provision⁷¹ and provisions designed to limit the reach of liability.⁷² Further, in *Bayer v. Housey* and *NTP v. RIM*, the Federal Circuit held that for a product to be made by a process patented in the U.S., it must have been a physical article that was “manufactured;” mere production of information was not covered.⁷³ The court also held that the allegedly infringing product must have been made directly by the claimed process.⁷⁴ Accordingly only manufacturing methods create liability under Section 271(g).

While it may not be possible to craft an appropriate claim invoking Section 271(g) for all subject matter, the possibility of avoiding many of the divided and distributed infringement problems we discuss herein suggests that prosecutors give serious consideration to such claims. While the Federal Circuit’s language in *Bayer* and *NTP* seems to exclude products of computational processes from the scope of Section 271(g),⁷⁵ it may be possible to craft claims that comport with the court’s requirement for a manufactured product. Consider for example, the following method of “manufacturing” a computer program product.

- (a) defining an in-memory representation of an execution sequence corresponding to a source representation of a program;
- (b) optimizing the execution sequence based at least in part on a flow analysis of the in-memory representation;
- (c) generating code corresponding to the execution sequence; and
- (d) encoding the generated code in a medium of the computer program product.

The “information product”/“no information product” distinction proved unworkable when applied to patentable subject matter,⁷⁶ and it may run into similar problems here. Creative lawyers will no doubt seek to adapt their language to maximize the likelihood that coverage under Section 271(g) is available.

4. Post-Issue Practice

If your patent has already issued with divided claims, all is not necessarily lost. Patent applicants who keep a continuation pending can use the continuation application to draft unitary claims of the form we discussed above. Even if there is no continuation pending, the applicant can

⁶⁹ See generally DONALD S. CHSUM, CHSUM ON PATENTS Section 16.02[6][d][ii] (1978) (discussing legislative history supportive of this broad reading).

⁷⁰ See *E.I. Dupont De Nemours and Co. v. Monsanto Co.*, 903 F.Supp. 680, 733-34 (D. Del. 1995). While the multiple-entity situation has apparently not been addressed to date in a precedential opinion, it is notable that the traditional pitfall of a multiple-entity method infringement theory, namely absence of a direct infringement, seems inapplicable since the statute specifically contemplates liability even where no direct infringement occurs. Further, as a matter of construction, while Section 271(f) requires that extraterritorial acts supporting infringement liability occur “in a manner that would infringe the patent if such [acts] occurred within the United States,” no such requirement appears in the language of Section 271(g).

⁷¹ 35 U.S.C. Section 271(g) (2001) (providing that “[i]n an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product”).

⁷² *Id.* (“A product which is made by a patented process will, for purposes of this title, not be considered to be so made after - (1) it is materially changed by subsequent processes; or (2) it becomes a trivial and nonessential component of another product.”).

⁷³ See *Bayer AG v. Housey Pharms., Inc.*, 340 F.3d 1367, 1377-78, 68 U.S.P.Q.2d (BNA) 1001, 1009 (Fed. Cir. 2003); *NTP, Inc. v. Research in Motion, Inc.*, ___ F.3d ___, 2005 WL 1806123 (Fed. Cir. Aug. 2, 2005).

⁷⁴ *Bayer*, 340 F.3d at 1378, 68 U.S.P.Q.2d (BNA) at 1009 (“Thus, the process must be used directly in the manufacture of the product, and not merely as a predicate process to identify the product to be manufactured.”).

⁷⁵ Particularly problematic is the statement that “production of information is not covered.” *Bayer*, 340 F.3d at 1377, 68 U.S.P.Q.2d (BNA) at 1008.

⁷⁶ See, e.g., Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CALIF. L. REV. 1 (2001) (noting the collapse of these distinctions in the patentable subject matter context).

seek a reissue patent, bearing in mind that doing so may create intervening rights in competitors who adopted the technology before the reissue application itself issues.⁷⁷ One interesting question is whether reissuing a divided claim as a unitary claim constitutes a broadening reissue or not. While the actual scope of the patented elements will not change, the effective scope of the patent will of course be broader, since a divided infringement claim does not in fact cover any ground at all. Thus, while no court has considered the issue, it is likely that a change from divided to unitary claims is a broadening reissue that must be filed within two years after the original patent issued.⁷⁸ By contrast, a reissue that puts a claim in a form to apply Section 271(g) by adding a requirement that a process “produce an information product” may not be considered broadening, even though it triggers liability under a new section of the patent statute, since it adds a restriction not present in the original claim.

5. Consider Foreign Protection

Finally, as previously suggested, international filing of unitary claims may be desirable. The sheer number of jurisdictions in which any particular unitary claim may be practiced may limit the practicality of this approach, however. In some cases, patentees may be able to identify a limited number of countries with the economic infrastructure necessary to make infringement plausible. Filing unified patent claims in those countries may suffice to provide effective protection. If developing countries succeed in establishing “data havens,” however, this international filing strategy may prove ineffective. Further, even if effective, it is likely to be expensive, and patentees may reasonably question the viability of enforcement action in countries that have little to no history of enforcing patent rights. While worldwide patent protection may be impractical, patentees should at a minimum consider filing in England, where the standards appear to be somewhat broader than in the U.S., as we explain in Part IV.B.

B. Litigation Strategies

The issues presented by divided patent claims also suggest several litigation strategies for plaintiffs and defendants. Before filing suit, plaintiffs should carefully consider the risks of filing based solely on infringement of a divided patent claim. Because of the many problems inherent in proving infringement of such claims, every effort should be made to minimize reliance on them. As discussed above, success on such claims will require convincing a court to depart from traditional interpretations of the law regarding direct infringement and territorial limitations. Accordingly, counsel must advise clients carefully about these risks, while seeking to find other, non-divided claims on which to base a suit. If the client has no alternatives to a divided claim, particularly in the international context, plaintiffs should seek to employ Section 271(g), which may permit them to reach at least the downstream seller of a product made by a divided process. In the international context, counsel should also consider whether another forum, like the International Trade Commission (which can issue exclusion orders preventing importation of goods as well as cease and desist orders), might provide a better chance of relief than a federal district court. The Federal Circuit has held that the limits on Section 271(g) simply don’t apply in an ITC proceeding under Section 337.⁷⁹

Plaintiffs should also consider filing suit in the United Kingdom, if possible. The U.K. courts have held that a server in Antigua was “used” in the U.K. when bets were placed over a computer network from a U.K. client, even though the processing at the heart of the patented gaming system actually occurred in Antigua.⁸⁰ And the House of Lords has accepted a theory of joint infringement where acts were done “pursuant to a common design.”⁸¹ Thus, many of the problems with litigating divided infringement claims in the U.S. may simply not arise under U.K. law.

Plaintiffs and defendants alike should be alert to the importance of claim construction in addressing claims that are ambiguous but that may be construed as divided claims. Defendants

⁷⁷ 35 U.S.C. Section 252 (2000).

⁷⁸ 35 U.S.C. Section 251 (2000).

⁷⁹ *Kinik Co. v. ITC*, 362 F.3d 1359, 1363, 70 U.S.P.Q.2d (BNA) 1300, 1303 (Fed. Cir. 2004) (holding that 35 U.S.C. Section 271(g) defenses are unavailable in ITC patent-infringement proceedings).

⁸⁰ *Menasse Bus. Mercantile Ltd. v. William Hill Org. Ltd.*, [2003] R.P.C. 31.

⁸¹ *Sabaf SpA v. MFI Furniture Ctr. Ltd.*, [2004] U.K.H.L. 45, Paragraphs 39–40.

should be advocating a construction of such claims that requires the existence of multiple, independent actors to perform the claims (which could lead to a summary judgment motion). Plaintiffs, on the other hand, should seek to characterize the process as one that can be performed by a single user or a network of affiliated users.

Defendants should carefully consider pleading patent misuse as an affirmative defense to an infringement claim on a divided patent. If a plaintiff seeks to broaden the scope of its patent to include a staple article of commerce suitable for substantial non-infringing use with anti-competitive effect, such a defense could provide another opportunity to threaten the enforceability of the plaintiff's patent.

Defendants should also carefully consider seeking to resolve the case early, on a quick summary judgment motion or even a Rule 12(b)(6) motion. As noted in Part II, such cases as *Dynacore Holdings Corp. v. U.S. Philips Corp.*⁸² establish that courts need not even reach claims of contributory infringement or inducement if there is no entity directly infringing the claim. If the claim is drafted poorly enough, the requirement that multiple parties be involved may be apparent from the face of the claim itself.

It will probably be necessary, as a precursor to such a motion, for the defendant to take some basic discovery to determine whether or not the plaintiff has any basis to support the divided claim. For example, in multi-user claims, a defendant may need to take discovery to establish that the plaintiff has no basis for contending there is an agency relationship between the defendant and the third-party user. Absent a material dispute as to the existence of such an agency relationship, summary judgment may be appropriate.⁸³

With respect to discovery, plaintiffs should aggressively pursue, and defendants should be prepared to defend against, discovery seeking to establish agency in cases of multi-user claims. Relevant discovery requests would include those seeking internal communications, as well as communications between the third-party user and the defendant concerning what the defendant instructed the third party to do in regard to the relevant product. Such cases as *Shields v. Halliburton Co.*,⁸⁴ *Mobil Oil Corp. v. W. R. Grace & Co.*,⁸⁵ and *Crowell v. Baker Oil Tools, Inc.*,⁸⁶ discussed above, outline the factors and considerations that have led some courts to make a finding of agency sufficient to support an infringement claim. But we emphasize that proof of agency is something that requires control and direction, and not merely a customer relationship. As a result, it will not be appropriate in all or even most cases of divided infringement.

Finally, in cases where the infringed claims are multi-jurisdictional in nature, discovery should focus on the importance of the U.S. to the accused instrumentality. This will be extremely important after *NTP, Inc. v. Research in Motion, Ltd.*,⁸⁷ which revived the long-dormant "locus of infringement" test. Cases such as *Rosen v. NASA*⁸⁸ and *Decca Ltd. v. United States*⁸⁹ provide some of the relevant factors to be considered in this area. For example, expert discovery establishing the necessity of the U.S.-based server to a networking claim would be very useful to plaintiffs seeking to prevail on this kind of divided claim.

C. Policy Issues

Patent prosecutors can solve some but not all of the problems of distributed patent claims. Litigators and businesspeople can exploit the issue, or mitigate it, depending on their or their clients' interests. Is there a role for policymakers? Put another way, is the difficulty that patentees have in enforcing distributed patent claims a loophole that the law needs to close?

82 363 F.3d 1263 (Fed. Cir. 2004).

83 Certain claims drafted to avoid the divided infringement problem may raise other problems. For example, a method claim redrafted as an apparatus claim to avoid divided infringement triggers the marking requirement of 35 U.S.C. Section 287(a) (2000), and failure to mark the apparatus with the patent number will preclude damages before the date the defendant is notified of infringement.

84 493 F. Supp. 1376 (W.D. La. 1980).

85 367 F. Supp. 207 (D. Conn. 1973).

86 143 F.2d 1003 (9th Cir. 1944).

87 ___ F.3d ___ (Fed. Cir. Aug. 2, 2005).

88 152 U.S.P.Q. (BNA) 757 (Bd. Pat. Inter. 1966).

89 544 F.2d 1070 (Ct. Cl. 1976).

We think the answer differs for the two types of distributed claims we have discussed. The law should not enforce domestic distributed patent claims. First, because they can be avoided by proper patent drafting, there is little need to do so. Second, patent infringement is a strict-liability offense. Because virtually all modern patents are combinations of existing elements, permitting enforcement of distributed patent claims against anyone who produces or performs any single element, with or without an intent to infringe, would sweep a large number of innocent actors within the ambit of patent infringement. Those who contributed only staple items of commerce - computers, telecommunications networks, routers, and the like - would face liability whenever a patentee could point to others who used these staples for infringing purposes. The law quite reasonably limits liability to those who either actually infringe a patent in its entirety, or who orchestrate an effort by several people to infringe the patent collectively. For similar reasons, the law should maintain its narrow definition of agency and not expand networks of liability to encompass any business relationship.⁹⁰

Unlike the case of divided patent claims within the U.S., the international problem of distributed patent claims is more amenable to policy solution. As noted above, the problem cannot be solved by simply prosecuting patents in multiple countries. Further, in an ideal world patent law would be fully harmonized and indeed international, not territorial, in nature.⁹¹ The fact that particular inventions can be practiced internationally makes it more likely that they will fall through the cracks in our current, imperfect patent system. It also encourages competitors to game the system, by taking computer servers offshore to data havens. While the Federal Circuit has moved to minimize those risks with its recent decisions in *Eolas Techs., Inc. v. Microsoft Corp.*⁹² and *NTP*, the limited extraterritoriality that those decisions created can itself be gamed. We think the patent laws in the United States (and elsewhere) could profitably be modified to further reduce the risk of gaming by making it clear in Section 271(g) that the importation of data produced abroad by a patented process, like the importation of products produced by that process, violates the law.⁹³ This change would have the added benefit of technology-neutrality, since it does not distinguish between inventions implemented in hardware and those implemented in software.

Dan Burk warns that courts should be hesitant to extend U.S. patent rights to cover accessing foreign computer systems.⁹⁴ We agree that extending laws extraterritorially should be done with caution, lest firms be subject to the conflicting laws of many different countries. But where the opposite risk is possible - that no country's law would apply - the limited introduction of a right against importation seems reasonable to us.

V. CONCLUSION

Divided patent claims provide new challenges for the patent system, patent owners, and patent practitioners, whether those claims are divided because of the way they are drafted or because of the defendant's ability to implement the invention in multiple countries. Current law provides little solace for patent owners faced with distributed patent claims. If the distribution is the result of bad patent drafting, that is probably as it should be. But if the distribution is unavoidable - if it results from the inherently global nature of computer networks - the law should seek minimally intrusive solutions designed to prevent those inventions from losing all protection. In either event, patent owners and patent practitioners must be aware of the problem and take it into account in writing, valuing, enforcing, and defending against patents.

⁹⁰ Cf. *Insituform Techs. v. CAT Contracting*, 385 F.3d 1360, 1380-81, 72 U.S.P.Q.2d (BNA) 1870, 1886-87 (Fed. Cir. 2004) (refusing to pierce the corporate veil in order to treat one entity as the alter ego of another for inducement purposes).

⁹¹ See Paul Edward Geller, *An International Patent Utopia?*, 85 J. PAT. & TRADEMARK OFF. SOC'Y 582 (2003).

⁹² 399 F.3d 1325 (Fed. Cir. 2005).

⁹³ Doing so would change the result in *NTP v. RIM*. It would not necessarily follow, however, that the result in *Bayer AG v. Housey Pharms.*, 340 F.3d 1367 (Fed. Cir. 2003) would change. Because the patentee in *Bayer* asserted reach-through patent claims, it is quite possible that the accused infringer would import not simply data produced directly by the patented process, but information or products sufficiently transformed that they would fall outside the scope of 35 U.S.C. Section 271(g) (2001).

⁹⁴ Burk, *supra* note 32, at 57.

FOOTNOTE 17: LOVE, HATE AND *MARKMAN*

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“My law clerk Sabrina Fève requests that I disclose that she now despises patent law. I cannot believe that anyone who displays such competence in a field of inquiry feels so vehemently. Her response must be less than forthcoming: the traditional line between love and hate lives on.”

Illinois Tool Works, Inc., v. Ion Systems, Inc., 250 F.Supp.2d 477, 505, fn. 17 (E.D. Pa. 2003) (Anita B. Brody, Judge).

What could make a law clerk so vigorous in her denunciation of patent law, and a Federal District Court Judge so moved by the sentiment, to include this footnote in an opinion? An analysis of the decision might give guidance.

The quotation comes at the end of a long *Markman* opinion. In nearly 30 pages, the District Court construed at least 19 disputed terms from two of the four patents in suit. All the patents involved systems that control the amount of static electricity in a room by supplying ions of the opposite polarity from the charges built up in the room. The footnote appears at the very end of the opinion, following a lengthy discussion of the sometimes conflicting and confusing legal principles that govern claim construction, the contentions of the parties, and the construction of the disputed terms.

As the footnote comes at the end of such a lengthy decision, one might be tempted to say the footnote followed the “ultimate” claim construction. However, it is far from “ultimate” in today’s legal climate. At best it is the penultimate claim construction. The prevailing wisdom is that reversals of District Court judgments on claim construction issues continue to run at a very high rate.

When *Markman* was new, a high reversal rate could be attributed to lower courts being unaccustomed to the procedures and idiosyncrasies associated with a new process. In the middle years, an explanation for the relatively high reversal rate could be that the appellate court and lower courts were fine-tuning the process. The Federal Circuit *en banc Markman* decision was nearly ten years ago, and the affirming Supreme Court decision was nearly nine years ago. The fine tuning should be done by now, yet the prevailing belief is that reversal rates on claim construction have remained high. To determine whether reversals on claim construction are continuing at a high rate, we studied and tabulated the written decisions of the Federal Circuit in appeals from district courts and the ITC from January of 2003 through August of 2004 to determine: (1) whether claim construction was at issue; and if so, (2) whether the claim construction was reversed in any way; and if so, (3) whether the reversal impacted the result. Our goal was to learn whether claim construction has remained an issue worthy of continued discussion. The analysis excluded the “Rule 36 affirmances” where the lower court was affirmed without opinion. What we learned is summarized in the table on the next page.²

1 Mr. Banner is a Senior Shareholder of Banner & Witcoff, Ltd., an Intellectual Property law firm. He practices in the firm’s Chicago office. This article is adapted from a column that appeared in Summer 2003 newsletter of the American Bar Association Section of Intellectual Property Law. “Keeping Current with the Chair,” IPL NEWSLETTER, Vol. 21, No. 4, (ABA, Summer 2003), located online at: http://www.abanet.org/intelprop/bulletin/summer_03.pdf

2 A copy of the table, as well as our analysis of the decisions whose claim construction holdings are summarized, is attached to this paper.

<p align="center">Summary of Federal Circuit Opinions from District Court and ITC Patent Cases 1/1/03 to 8/30/04</p>			
Non-precedential: 64 Cases (26%)	Claim construction at issue: 41 cases (64%)	Claim construction reversed: 18 cases (44%)	Result impacted: 15 cases (83%)
		Claim construction not reversed: 23 cases (56%)	Result not impacted: 3 cases (17%)
	Claim construction not at issue: 23 cases (36%)		
Precedential: 180 Cases (74%)	Claim construction at issue: 94 cases (52%)	Claim construction reversed: 56 cases (60%)	Result impacted: 48 cases (86%)
		Claim construction not reversed: 38 cases (40%)	Result not impacted: 8 cases (14%)
	Claim construction not at issue: 86 cases (48%)		

Of 244 total opinions (both non-precedential and precedential) in appeals from district court and ITC patent infringement cases, claim construction was at issue on appeal in 135 cases. Of those 135 cases, claim construction was reversed in 74 cases. However, not all of the reversals of claim construction impacted the result; in some cases, for example, the error was harmless. Of the 74 cases in which claim construction was reversed, the result was changed (in whole or in part) in 63 cases, which we regarded as the “effective” reversal rate. Thus, the 63 opinions containing result-impacting claim construction reversals represent 47% of the opinions where claim construction was at issue on appeal (135 cases). Put another way, the effective reversal rate for 2003 and 2004 (through August 30) for claim construction is 47%.

One can surmise that “footnote 17” - quoted at the beginning of this paper - was intended to gently (and with good humor) remind the reader of the daunting task confronting District Court judges approaching the *Markman* task knowing that there is a 47% chance of reversal if appealed. Indeed, the Federal Circuit itself acknowledged the difficulty recently in *Astrazeneva AB v. Mutual Pharmaceutical Co.*, 384 F.3d 1333, 72 U.S. PQ.2d 1276, (Fed. Cir. 2004), when it reversed a district court’s “lengthy and careful opinions” noting that the district court “relied extensively on our recent case law, *which is unfortunately complex and inconsistent.*” (Emphasis added.) The court noted the dichotomy of approaches in recent decisional law of claim construction. One approach looks primarily to intrinsic evidence, particularly the patent’s specification, including the inventor’s statutorily-required written description of the invention, and the other approach emphasizes the use of extrinsic sources such as treatises and dictionaries in determining claim meaning.³ The Appeals Court said that a resolution of this legal question “may be approaching,” citing the Order for *en banc* review of the issue.⁴

The ongoing high reversal rate of claim construction issues, and the acknowledged inconsistency in approaches taken by the Federal Circuit, makes it clear that the near-decade of experience under *Markman* has resulted in profoundly negative consequences for the patent system. This was presaged in the original Federal Circuit *Markman en banc* decision. In that decision, Judge Mayer (in an opinion concurring in the result) said:

Today the court jettisons more than two hundred years of jurisprudence and eviscerates the role of the jury preserved by the Seventh Amendment of the

³ *Edward H. Phillips v. AWH Corp.*, 376 F.3d 1382, (Fed. Cir. July 21, 2004) (granting petition for *en banc* rehearing, to address broadly the law of claim construction).

⁴ *Id.*

Constitution of the United States; it marks a sea change in the course of patent law that is nothing short of bizarre. Sadly, this decision represents secession from the mainstream of the law. *It portends turbulence and cynicism in patent litigation.*

Markman v. Westview Instruments, 52 F.3d 967, 989 (Fed. Cir. 1995) (emphasis added).

Judge Mayer predicted that separating claim interpretation from its factual foundations “will have profoundly negative consequences for the well-established roles of trial judges, juries, and our court in patent cases.” *Markman*, 52 F.3d at 990. Judge Mayer went on to argue that claim construction has always been reviewed as an ultimate question of law based on underlying factual determinations. Those factual determinations, he pointed out, were reviewed under the “clear error” standard of review (when found by a court) or under the “substantial evidence” standard (when found by a jury). The key in Judge Mayer’s observation is that appellate review of claim construction decisions frequently involved a high degree of deference to the lower tribunal based on its fact-finding function. Eliminating that deference, he predicted, would make the judicial process a charade:

Indeed, the effect of this case is to make of the judicial process a charade, for notwithstanding any trial level activity, this court will do pretty much what it wants under its *de novo* retrial. We have consistently stressed that the same rules apply to patent cases as apply to all other civil disputes. ... The court subverts this principle and the demands of the Seventh Amendment by the ruse of reclassifying factual questions as legal ones.

Markman, 52 F.3d at 993.

The importance of the deference given by appellate courts to trial court findings of disputed facts was pointed out by Judge Newman in her dissent of the original *Markman* decision:

I wonder how this new system will work. ... What of the trial process, if trial judge and jury are ciphers upon appellate review?

* * *

In patent cases, no less than for other causes of action, it is the trier of fact on whom the system of justice is founded. The extensive exposition of disputed facts that is available at trial can not be duplicated on appeal. *Even were there no constitutional infirmity, I can discern no practical benefit sufficient to justify this court’s departure from the established procedures of trial and appeal. Implicit in the appellate process is an expected degree of deference to the trial process.* The majority’s elimination of the jury as trier of fact, and elimination of the deference owed to the judge upon bench trial of disputed facts, removes from the parties the benefit of the trial process. It distorts the trial/appellate relationship in a manner unique to patent litigation, and manifests a heady misperception of our assignment as a national appellate court.

Markman, 52 F.3d at 1008 (emphasis added). She doubted that “correct” results were more likely with *de novo* review:

However, the meaning and scope of disputed technologic and other terms of art in particular usage are classical questions of fact. Their nature as fact does not change because their finding, like most findings in litigation, has a legal consequence.

* * *

The trial process is the vehicle for determining truth. Thus the trier of fact is present in the courtroom along with the witnesses, the advocates, the exhibits, and the demonstrations. Indeed, when the technologic issues are complex,

appellate fact finding is probably the least effective path to accurate decisionmaking. And if a factual question is technologically simple, it is not thereby transformed into a matter of law and removed from the trial process. Even were there no constitutional infirmity, *I doubt that the correct resolution of technologic or scientific disputes is more likely to be achieved by removing disputed facts from the procedures of trial and consigning them to the appellate court.* Appellate briefs and fifteen minutes per side of attorney argument are not designed for *de novo* findings of disputed technologic questions

Markman, 52 F.3d at 999 (emphasis added).

To hammer home the point that these technologic decisions are factual, not purely legal, Judge Newman wrote:

The character of what is a fact does not change even in those special cases that have been held to warrant plenary appellate review? The subject matter that the majority now designates as “law” - the disputed meaning and scope of technologic terms and words of art as used in particular inventions--is not law, but fact. On any definition of fact and law, the question of whether “inventory” as used in *Markman*’s Claim 1 means only clothing or can include invoices is a question of fact: on Thayer’s criterion of whether the fact exists; on Morris’ criterion of whether there is a need for evidence; on Bohlen’s inquiry of whether the meaning is specific to the situation *sub judice*. The meaning of “inventory” is specific to this invention, this patent, this claim, this system, this defendant. Its determination is for the trier of fact.

Markman, 52 F.3d at 1009-10.

By making patent cases different from other types of civil cases, and by separating them from the mainstream of judicial thought, the *Markman* decision would create a “different, and uncertain, appellate role” for the Federal Circuit, said Judge Newman:

The Federal Circuit is responsible for establishing consistent national law in its areas of assigned subject matter. The court early in its existence took note that patent cases were only one of many areas of commercial dispute, only one of many areas of intellectual property dispute, that are tried in the district courts. We have striven to assure that unnecessary burdens are not placed upon the district courts of the nation by virtue of the separate path of appellate review of patent cases. We acted to assure that the same procedures would apply in the trial of patent cases as in other civil actions. ... Thus the litigation process that served other civil disputes also served in patent litigation. Today’s ruling, with its departures from the rules of evidence, its changed standards of deference and review, its conflict with established jury and bench procedures, challenges the principle on which this comity was based.

Patent cases are not unique in their usage of specialized terms and words of art, in their reliance on technologic or scientific evidence, in their dependence on findings of technologic fact. Evidentiary conflicts with respect to technology and science arise in a variety of cases; and the conflicting testimony of expert witnesses is ubiquitous. Trial judges have extensive experience in assuring a fair trial, and finding, within human limitations, the truth. Today this court severs patent cases from all others, requiring different (and uncertain) procedures at trial, taking unto ourselves a different, and uncertain, appellate role.

Markman, 52 F.3d at 1025.

That “different, and uncertain” role has resulted in nearly ten years of confusion, if not chaos. As Chief Judge Mayer said, in dissenting to the Order for *en banc* consideration of the Phillips case, until the court is willing to reconsider its basic assumptions in *Markman* and *Cybor Corp v. FAS Technologies, Inc.*, 138 F.3d 1448 (Fed. Cir. 1998), “any attempt to refine the process is futile.” He added:

Nearly a decade of confusion has resulted from the fiction that claim construction is a matter of law, when it is obvious that it depends on underlying factual determinations which, like all factual questions if disputed, are the province of the trial court, reviewable on appeal for clear error. To pretend otherwise inspires cynicism. Therefore, and because I am convinced that shuffling our current precedent merely continues a charade, I dissent from the *en banc* order.

Phillips v AWH Corp., 376 F.3d at 1384.

These sentiments from the bench echo comments received by this author when he suggested in 2002 a comprehensive review of the *Markman* process. (See “Is *Markman* Right?” published in the November 2002 issue of the *Chair’s Bulletin*⁵). Letters, e-mails, and comments came from members of the user community, District Court judges, individual inventors, and colleagues in the outside bar. Few submissions were as colorful as the quotes attributed to Judge Samuel Kent of the Eastern District of Texas, who was quoted in a March 2002 issue of *IP Worldwide*, as having said (during a summary judgment hearing in a patent case), “Frankly, I don’t know why I’m so excited about trying to bring this [patent case] to closure. It goes to the Federal Circuit afterwards. You know, it’s hard to deal with things that are ultimately resolved by people wearing propeller hats.” In that same article he was quoted as having told *The National Law Journal* that the Federal Circuit is full of “little green men who don’t know Tuesday from Philadelphia.”

The mail and comments to this author may not have been as colorful, but they certainly were as heartfelt. The main thrust of the comments was that the appellate court must give deference to the implicit or explicit findings and expertise of the trial court. To that end the decision to rehear the *Phillips* case *en banc* may provide some hope for a more consistent and clearheaded claim construction methodology. Although this author’s view is that Chief Judge Mayer has the best approach - reverse both *Markman* and *Cybor* - the court may yet significantly improve the *Markman* procedure by adopting a degree of deference for trial court factual findings. The order invited particular guidance on seven questions, the seventh of which raises the question of whether deference should be given to aspects of the trial court claim construction ruling. It stated:

Consistent with the Supreme Court’s decision in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), and our *en banc* decision in *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448 (Fed. Cir. 1998), is it appropriate for this court to accord any deference to any aspect of trial court claim construction rulings? If so, on what aspects, in what circumstances, and to what extent?

Phillips v AWH Corp., 376 F.3d at 1383.

Thus, the court is considering adding a degree of deference to trial court claim construction rulings. Many of the Briefs of Amici on this issue support a concept of giving some deference to the trial courts. For example, the brief of the American Bar Association urges the Federal Circuit to give deference to a trial court finding of fact made in connection with a claim construction ruling, using the clearly erroneous standard of review. The Association brief said that the court’s current practice of affording no deference, as mandated by the *Cybor* decision, “has led to substantial uncertainty in patent infringement litigation.” ABA Brief at 17.

5 <http://www.abanet.org/intelprop/nov02chair.html>.

The American Intellectual Property Law Association brief takes a similar viewpoint. It urges that claim construction necessarily involves underlying questions that “are inescapably factual, not legal, and in appellate court should defer to the district court’s findings.” AIPLA Brief at 19. The brief pointed out that the Federal Circuit routinely defers to lower court factual determinations in other legal judgments, citing as an example the obviousness determination, which rests on factual underpinnings. The AIPLA concludes that the Federal Circuit should “afford deference to district courts’ inferences or findings about factual issues encountered in claim construction.” AIPLA Brief at 21. Numerous other *amicus* briefs take similar positions.

The positions of the *amicus* participants on the issue of deference, and perhaps even the Federal Circuit having asked the question in the first place, may reflect a recognition that the *Markman* procedure is broken. The lack of predictability is not serving the patent system well.

As is commonly known, the Federal Circuit was created to bring uniformity to the law of patents. Prior to its creation hefty criticism was leveled at the various Circuit Courts of Appeals for lacking uniformity in the application of the patent laws. The outcome of a patent infringement lawsuit, it was said, often depended on the regional circuit in which the case was filed. At the time, the Eighth Circuit was widely criticized for never holding a patent valid, while other circuits were criticized for almost never holding a patent invalid. The “race to the courthouse” was considered outcome-determinative, leading to unpredictability. The prevailing wisdom reasoned that it made no sense to have the value of significant research and development investments - and the validity of the patents that flowed from and protected those investments - depend on what circuit would hear the appeal of a patent infringement lawsuit. The situation, said the user community, diminished the value of patents because the outcome of litigation was so uncertain and so highly dependent on the circuit in which the case was filed.

Were those the “good old days?” At least then the race to the courthouse often provided a significant predictor of the outcome early in the litigation! Today, the uncertainty inherent in the manner in which *de novo* review of *Markman* rulings takes place has created a widely held belief in the business and user community that the outcome of patent cases cannot be determined until after the Federal Circuit has ruled on claim construction. The Federal Circuit, the argument goes, has created a morass of confused and contradictory claim construction canons. As the court said in *Illinois Tool Works*:

The Federal Circuit’s enthusiasm for dictionary definitions as a means of determining the proper scope and meaning of a claim illustrates the conundrum that claim construction can pose for the courts. The blackletter law of patent analysis presents a clear hierarchy of authority: the court should consider first the claim language, then the remaining intrinsic evidence, and, thereafter, in limited circumstances, extrinsic evidence. See, e.g., *Interactive Gift*, 231 F.3d at 866. Yet cases like *Texas Digital* suggest that the court should begin its claim construction by looking to a dictionary. This apparent paradox recalls the oft-cited decision of *Autogiro Company of America v. United States*, 384 F.2d 391, 397 181 Ct.Cl. 55, 155 U.S.P.Q. 697 (1967), wherein the predecessor to the Federal Circuit, the U.S. Court of Claims, noted with exasperation that “[p]atent law is replete with major canons of construction of minor value,” and concluded that, despite previous judicial decisions to the contrary, claims “cannot be clear and unambiguous on their face. A comparison must exist.” Similarly, while the doctrine of claim construction urges courts to limit their analysis to the claim language itself, the practice of claim construction requires the courts to refer to intrinsic and extrinsic evidence to determine the proper meaning of a term. This reality raises confusion as to how and when a court should consult evidence other than the claim language.

Illinois Tool Works, 250 F.Supp.2d at 483-84.

Statistics about reversal rates are not the whole story and, when the merits of any individual case are considered, are irrelevant. As many who defend the work of the Federal Circuit say, the court's job is to decide the case correctly, not to decide it in accord with a statistical model. The job of the judge is to 'do the *right* thing', not to do the *predictable* thing.

Yet the same was true before the Federal Circuit was created. The commentators who criticized the Eight Circuit for never holding a patent valid, or other circuits for never holding a patent invalid, did not question the integrity or sincerity of the members of those courts. Everyone assumed that each judge in each case was trying to 'do the right thing' and that their decisions reflected their true beliefs that the outcomes reached were, indeed, 'right.' The statistical arguments about the performance of the Federal Circuit are as valid - or invalid - today as were the statistical arguments that were voiced then regarding the regional circuits. The regional circuits were criticized as disserving the public interest. Despite the fact that they were trying to 'do the right thing', they were replaced by the Federal Circuit.

There is a doctrine in the law called *res ipsa loquitur*, "the thing speaks for itself." The phrase may have significance here. District court judges, so highly talented in assessing facts, evaluating witnesses, judging credibility, and sifting through complex and difficult arguments in areas of law with which they are unfamiliar, simply cannot be the 'doing the *wrong* thing' nearly half the time.

The patent community needs to find a way to make claim construction more predictable. The *en banc* review of the Phillips case may provide an answer. If not, it may be necessary to resort to corrective legislation or, perhaps, Supreme Court review. Whatever it takes, the patent community needs to find a way to make footnote 17, so charming in its prose but damning in its point, a true footnote in the history of patent law.

POSTSCRIPT

Since this original paper was prepared in the Summer of 2004 the stream of claim construction cases, and reversals from the Federal Circuit, has continued unabated. On July 12, 2005, the Federal Circuit issued its opinion in the much-anticipated *Phillips* case. Although the order taking the case *en banc* invited specific guidance on whether deference should be given to aspects of a trial court claim construction ruling, and although many of the briefs *Amici* supported giving deference to the trial courts, the Federal Circuit decided not to address the issue, saying only, "After consideration of the matter, we have decided not to address that issue at this time." *Phillips v. AWH Corp.*, slip op. at 38.

The decision of the *en banc* court in *Phillips* prompted another stinging dissent from Judge Mayer, joined by Judge Newman. That dissent said:

But after proposing no fewer than seven questions, receiving more than thirty *amici curiae* briefs, and whipping the bar into a frenzy of expectation, we say nothing new, but merely restate what has become the practice over the last ten years—that we will decide cases according to whatever mode or method results in the outcome we desire, or at least allows us a seemingly plausible way out of the case.

* * *

Eloquent words can mask much mischief. The court's opinion today is akin to rearranging the deck chairs on the Titanic—the orchestra is playing as if nothing is amiss, but the ship is still heading for Davey Jones' locker.

Phillips v. AWH Corp., dissenting slip op. at 2, 9.

Up to and including the *Phillips* decision the Federal Circuit continues to frequently reverse lower court claim construction rulings, when they are on appeal. Below is an update of the table contained in the article, and it shows Federal Circuit treatment of decisions from January 2003 through and including *Phillips* on July 12, 2005. As can be seen the "effective reversal rate" has gone down only from 47% (at the time the paper was written) to 45%.

Perhaps *Phillips* has rationalized the law of claim construction and perhaps district courts will now find their rulings reversed fewer times by the Federal Circuit. Only time will tell. However, if the dissenting judges in *Phillips* are correct, the final paragraph we pose in the main article remains true: the patent community will need to find a way to make claim construction more predictable, and to make the high reversal rate and its attendant wasteful litigation a mere footnote in the history of patent law.

<p style="text-align: center;">Summary of Federal Circuit Opinions from District Court and ITC Patent Cases 1/1/03 to 7/12/05</p>			
Non-precedential: 123 Cases (30%)	Claim construction at issue: 61 cases (50%)	Claim construction reversed: 26 cases (43%)	Result impacted: 21 cases (81%) Result not impacted: 5 cases (19%)
		Claim construction not reversed: 35 cases (57%)	
	Claim construction not at issue: 62 cases (50%)		
Precedential: 287 Cases (70%)	Claim construction at issue: 137 cases (48%)	Claim construction reversed: 76 cases (55%)	Result impacted: 68 cases (89%) Result not impacted: 8 cases (11%)
		Claim construction not reversed: 61 cases (45%)	
	Claim construction not at issue: 150 cases (52%)		

The bottom line: Out of 410 total opinions (both non-precedential and precedential) in appeals from district court and ITC patent infringement cases, 89 opinions contained reversals of claim construction where the reversal impacted the result. The 89 opinions represent 22% of the total of 410 cases.

The 89 opinions containing result-impacting claim construction reversals represent 45% of the opinions where claim construction was at issue on appeal (198 cases). **Where claim construction is at issue on appeal, the effective reversal rate for 2003 and the *Phillips v. AWH Corp.* decision on July 12, 2005 is 45%.**

Data compiled by Mark T. Banner, Banner & Witcoff, Ltd., Chicago, Illinois, with the assistance of William Allen, and Aseet Patel. A complete list of the cases analyzed is attached.

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)								
STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?
precedential	12-Jul-05	Phillips v. AWH Corp.	D. Colo.	Judge Marcia S. Krieger	03-1269, -1286	yes	yes	yes
precedential	8-Jul-05	SanDisk Corp. v. Memorex Prods., Inc.	N.D. Cal.	Chief Judge Vaughn R. Walker	04-1422, -1610	yes	yes	yes
precedential	8-Jul-05	Salazar v. Procter & Gamble Co.	N.D. Okla.	Senior Judge H. Dale Cook	04-1013	yes	yes	yes
non-precedential	7-Jul-05	Izumi Prods. Co. v. Koninkljkje Philips Elecs. N.V.	D. Del.		04-1418, -1423	yes	yes	no
non-precedential	30-Jun-05	Lockformer Co. v. PPG Indus., Inc.	N.D. Ill.		03-1459, -1542	yes	no	no
precedential	29-Jun-05	Seachange Intl, Inc. v. C-COR Inc.	D. Del.	Judge Joseph J. Farnan, Jr.	04-1375, -1498	yes	yes	yes
precedential	28-Jun-05	Northpoint Tech., Ltd. v. MDS Am., Inc.	S.D. Fla.	Judge James I. Cohn	04-1249, -1295	no	no	no
precedential	27-Jun-05	Rasmussen v. SmithKline Beecham Corp.	PTO		04-1191, -1192 (interference No. 104,646)	no	no	no
precedential	22-Jun-05	Prima Tek II, L.L.C. v. Polypap, S.A.R.L.	S.D. Ill.	Judge Michael J. Reagan	04-1411, -1421	yes	yes	yes
precedential	22-Jun-05	Fort James Corp. v. Solo Cup Co.	E.D. Wis.	Chief Judge Rudolph T. Randa	04-1365	no	no	no
non-precedential	21-Jun-05	Aptix Corp. v. Quickturn Design Sys., Inc.	N.D. Cal.		04-1368	no	no	no
precedential	20-Jun-05	Checkpoint Sys., Inc. v. All-Tag Sec. S.A.	E.D. Pa.	Judge Petrese B. Tucker	04-1395	no	no	no
precedential	17-Jun-05	Upsher-Smith Labs., Inc. v. Pamlab, L.L.C.	D. Minn.	Judge Ann D. Montgomery	04-1405	no	no	no
precedential	16-Jun-05	Default Proof Credit Card Sys., Inc. v. Home Depot U.S.A., Inc.	S.D. Fla.	Judge Cecilia M. Altonaga	05-1069	no	no	no
precedential	15-Jun-05	Ultra-Precision Mfg., Ltd. v. Ford Motor Co.	E.D. Mich.	Judge Victoria A. Roberts	04-1329	no	no	no
non-precedential	13-Jun-05	Janssen Pharmaceutica, N.V. v. Eon Labs Mfg., Inc.	E.D.N.Y.		04-1539, -1576	yes	no	no
precedential	9-Jun-05	Princeton Biochemicals, Inc. v. Beckman Coulter, Inc.	D.N.J.	Judge Mary L. Cooper	04-1493	no	no	no
precedential	8-Jun-05	Boss Control, Inc. v. Bombardier Inc.	S.D. Tex.	Judge Kenneth M. Hoyt	04-1437, -1438, -1471	yes	no	no
precedential	7-Jun-05	Purdue Pharms L.P. v. Endo Pharms, Inc.	S.D.N.Y.	Judge Sidney H. Stein	04-1189, -1347, -1357	no	no	no
non-precedential	7-Jun-05	Owen Mumford USA, Inc. v. Surgilance, Inc.	N.D. Ga.		04-1505	yes	yes	yes
precedential	7-Jun-05	Air Turbine Tech., Inc. v. Atlas Copco AB	S.D. Fla.	Judge Kenneth A. Marra	04-1387	no	no	no
precedential	1-Jun-05	Medimmune, Inc. v. Centocor, Inc.	D. Md.	Judge Alexander Williams, Jr.	04-1499	no	no	no
non-precedential	1-Jun-05	Designing Health, Inc. v. Erasmus	C.D. Cal.		03-1438, -1439, -1440, -1441, -1442, -1443	no	no	no
precedential	25-May-05	In re Harris	PTO		04-1370	no	no	no
precedential	23-May-05	Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH	E.D. Tex.	Judge T. John Ward	04-1262, -1290	no	no	no
non-precedential	23-May-05	Mattox v. Infotopia, Inc.	C.D. Cal.		05-1017	yes	yes	yes (vacated and remanded)
precedential	18-May-05	Syntex (U.S.A.) L.L.C. v. Apotex, Inc.	N.D. Cal.	Judge Martin J. Jenkins	04-1252	yes	no	no
precedential	16-May-05	Group One Ltd. v. Hallmark Cards, Inc.	W.D. Mo.	Chief Judge Dean Whipple	04-1295, -1297	no	no	no
non-precedential	11-May-05	Abbey v. Mercedes Benz of N. Am., Inc.	S.D. Fla.		05-1050	no	no	no
precedential	10-May-05	ArthroCare Corp. v. Smith & Nephew, Inc.	D. Del.	Chief Judge Sue L. Robinson	04-1323, -1487	no	no	no
precedential	6-May-05	PC Connector Solutions L.L.C. v. Smartdisk Corp.	M.D. Fla.	Judge John E. Steele	04-1180	yes	no	no

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)								
STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?
precedential	5-May-05	Clontech Labs., Inc. v. Invitrogen Corp.	D. Del.	Chief Judge Sue L. Robinson	03-1464, -1099	yes	no	yes (remanded for further interpretation of claim language)
precedential	29-Apr-05	Gillette Co. v. Energizer Holdings, Inc.	D. Mass.	Judge Patti B. Saris	04-1220	yes	yes	yes (vacated and remanded)
precedential	22-Apr-05	Hoffer v. Microsoft Corp.	N.D. Cal.	Judge James Ware	04-1103	yes	no	no
precedential	20-Apr-05	Space Sys./Loral, Inc. v. Lockheed Martin Corp.	N.D. Cal.	Judge Susan Illston	04-1501	no	no	no
precedential	19-Apr-05	Hornback v. United States	Ct. Fed. Cl.	Judge Emily C. Hewitt	04-5149	no	no	no
non-precedential	15-Apr-05	Sunny Fresh Foods, Inc. v. Michael Foods, Inc.	D. Minn.		04-1059, -1071	no	no	no
precedential	11-Apr-05	Nazomi Communications, Inc. v. ARM Holdings, PLC	N.D. Cal.	Judge Jeremy Fogel	04-1101	no	yes	yes (vacated and remanded for further claim construction)
precedential	11-Apr-05	Rhodia Chimie v. PPG Indus. Inc.	D. Del.	Judge Kent A. Jordan	04-1246	yes	no	no
precedential	11-Apr-05	Michael Bowling v. Hasbro, Inc.	D. Ariz.	Judge David C. Bury	04-1364	no	no	no
non-precedential	11-Apr-05	Apotex Inc. v. Pfizer Inc.	D. Del.		04-1463	no	no	no
precedential	8-Apr-05	Nellcor Puritan Bennett, Inc. v. Masimo Corp.	C.D. Cal.	Senior Judge Mariana R. Pfaelzer	04-1247	yes	yes	yes (vacate and remand)
non-precedential	7-Apr-05	VM Tech, Inc. v. Compaq Computer Corp.	D. Del.		04-1436	no	no	no
non-precedential	4-Apr-05	Bayer AG v. Hoesley Pharms., Inc.	D. Del.		04-1194	no	no	no
non-precedential	31-Mar-05	In re Satsuo Fujimura	PTO		04-1244	no	no	no
non-precedential	30-Mar-05	Outlast Techs., Inc. v. Frisby Techs., Inc.	D. Colo.		04-1503	yes	yes	yes (reverse and remand)
precedential	28-Mar-05	Howmedica Osteonics Corp. v. Tranquil Prospects, Ltd.	N.D. Ind.	Judge Allen Sharp	04-1302	yes	yes	yes (reverse, vacate, and remand)
non-precedential	24-Mar-05	Aspex Eyewear Inc. v. Elite Optike Inc.	D. Nev.		04-1292	no	no	no
precedential	24-Mar-05	In re Dr. Rath	PTO		04-1419, -1420	no	no	no
precedential	22-Mar-05	Asyst Techs., Inc. v. Entrek, Inc.	N.D. Cal.	Judge Jeremy Fogel	04-1048, -1064	yes	no	no
precedential	22-Mar-05	Schreiber Foods, Inc. v. Bestrice Cheese, Inc.	E.D. Wis.	Judge Lynn Adelman	04-1279, -1314	no	no	no
precedential	16-Mar-05	Merceexchange L.L.C. v. Ebay, Inc.	E.D. Va.	Judge Jerome B. Friedman	03-1600, -1616	yes	no	no
precedential	16-Mar-05	Medrad, Inc. v. MRI Devices, Inc.	W.D. Pa.	Judge Terrence F. McVeety	04-1134	yes	no	no
precedential	16-Mar-05	ASM Am., Inc. v. Genus, Inc.	N.D. Cal.	Magistrate Judge Elizabeth D. Laporte	04-1211	yes	no	no
precedential	15-Mar-05	V-Formation, Inc. v. Benetton Group SpA	S.D.N.Y.	Senior Judge Harold Baer, Jr.	03-1408	yes	no	no
precedential	15-Mar-05	Israel Bio-Eng'g Project v. Amgen, Inc.	C.D. Cal.	Judge R. Gary Klausner	04-1153	no	no	no
precedential	14-Mar-05	Pause Tech. L.L.C. v. Tivo Inc.	D. Mass.	Judge Patti B. Saris	04-1263	no	no	no
non-precedential	11-Mar-05	Klein v. Dudas	D.D.C.		04-1545	yes	no	no
non-precedential	10-Mar-05	Sentry Prof. Prods., Inc. v. Eagle Mfg. Co.	N.D. Ohio		04-1392	yes	no	no
non-precedential	9-Mar-05	Calida v. Sharp Elecs. Corp.	D.N.J.		05-1061	yes (design patent)	no	no
non-precedential	8-Mar-05	Decorations for Generations, Inc. v. Home Depot, Inc.	E.D. Cal.		04-1072, -1073, -1091	no	no	no
non-precedential	8-Mar-05	Alex Bellehumeur v. Jerome Bonnett	C.D. Cal.		04-1258	no	no	no
precedential	7-Mar-05	Playtex Prods., Inc. v. Proctor & Gamble Co.	S.D. Ohio	Thomas M. Rose	04-1200	yes	yes	yes (vacate-in-part affirm-in-part and remand)
non-precedential	7-Mar-05	Iowa State Univ. Research Found., Inc. v. Wiley Organics, Inc.	S.D. Iowa		04-1326	yes	yes	yes (vacate and remand)
precedential	2-Mar-05	Edes Techs., Inc. v. Microsoft Corp.	N.D. Ill.	James B. Zagel	04-1234	yes	no	no
precedential	28-Feb-05	Spartan Corp. v. United States	Ct. Fed. Cl.	Edward J. Damich	03-1569	no	no	no
precedential	22-Feb-05	Evident Corp. v. Church & Dwight Co.	D.N.J.	Mary Little Cooper	03-1541, 04-1137, 1213	no	no	no
non-precedential	22-Feb-05	Bd. of Educ. v. Am. Bioscience, Inc.	N.D. Fla.		04-1128	no	no	no
precedential	17-Feb-05	Rates Tech., Inc. v. Nortel Networks Corp.	E.D.N.Y.	Leonard D. Vexler	04-1212	no	no	no
non-precedential	17-Feb-05	Puritan-Bennett Corp. v. Penox Techs., Inc.	S.D. Ind.		04-1303, -1316	no	no	no
non-precedential	14-Feb-05	Kalman Gyory v. Reebok Int'l, Ltd.	D. Mass.		04-1516	no	no	no
non-precedential	11-Feb-05	Leon Stambler v. RSA Sec., Inc.	D. Del.		04-1148	no	no	no
precedential	11-Feb-05	Lisle Corp. v. A.J. Mfg. Co.	N.D. Ill.	David H. Coar	04-1275, -1346	yes	no	no (but clarified)
precedential	10-Feb-05	Thatcher v. Kohl's Dept Stores, Inc.	N.D. Ill.	George M. Marovich	04-1397	no	no	no
non-precedential	8-Feb-05	Alltrade Tools, L.L.C. v. Olympia Group, Inc.	C.D. Cal.		04-1090	yes	yes	no (harmless error)
precedential	8-Feb-05	Junker v. Eddings	N.D. Tex.	Barbara M.G. Lynn	04-1208, -1271	no	no	no
non-precedential	3-Feb-05	ISCO Int'l, Inc. v. Conductus, Inc.	D. Del.		04-1007, -1008	no	no	no
non-precedential	2-Feb-05	IEX Corp. v. Blue Pumpkin Software, Inc.	E.D. Tex.		04-1068, -1094	yes	yes	yes (vacate and remand)
non-precedential	2-Feb-05	Chi. Brand Indus., Inc. v. Milutoyo Corp.	N.D. Cal.		04-1381, -1404	no	no	no
precedential	28-Jan-05	Merck & Co., Inc. v. Teva Pharms. USA, Inc.	D. Del.	Joseph J. Farnan, Jr.	04-1005	yes	yes	yes
precedential	28-Jan-05	Silicon Image, Inc. v. Genesis Microchip Inc.	E.D. Va.	Robert E. Payne	04-1207	no	no	no
precedential	25-Jan-05	Indep. Ink, Inc. v. Ill. Tool Works, Inc.	C.D. Cal.	Cormac J. Carney	04-1196	no	no	no
precedential	21-Jan-05	Teva Pharms. USA, Inc. v. Pfizer Inc.	D. Mass.	Richard G. Stearns	04-1186	no	no	no
non-precedential	21-Jan-05	McKechnie Vehicle Components USA, Inc. v. Lacks Indus., Inc.	E.D. Mich.		04-1278	no	no	no

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)									
STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?	
non-precedential	19-Jan-05	Rosco, Inc. v. Mirror Lite Co.	E.D.N.Y.		03-1562	no	no	no	
precedential	19-Jan-05	Commissariat a l'Energie Atomique v. Chi Mei Optoelectronics Corp.	D. Del.	Kent A. Jordan	04-1139	no	no	no	
precedential	19-Jan-05	Printex Indus., Inc. and Time To Invent, L.L.C. v. Pedro Promotional Prods., Inc.	D.D.C.	Royce C. Lamberth	04-1293	no	no	no	
precedential	14-Jan-05	Fuji Photo Film Co. v. Jazz Photo Corp.	D.N.J.	Faith S. Hochberg	03-1324, -1331	no	no	no	
non-precedential	13-Jan-05	Piecznik v. Domantis	S.D.N.Y.		04-1477	no	no	-	
non-precedential	12-Jan-05	Phonometrics, Inc. v. Hospitality Int'l, Inc.	S.D. Fla.		04-1318	no	no	-	
non-precedential	12-Jan-05	Colida v. Qualcomm, Inc.	S.D. Cal.		04-1463	no	no	-	
precedential	11-Jan-05	Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs. Ltd.	W.D. Vts.	Crabb	04-1114, -1125	no	no	-	
non-precedential	11-Jan-05	Weres v. Weres	N.D. Cal.		04-1233	no	no	-	
precedential	7-Jan-05	Lamie v. Mettel, Inc.	C.D. Cal.	Judge Terry J. Hatter, Jr.	04-1151	no	no	-	
non-precedential	7-Jan-05	Jore Corp. v. Kouvolet, Inc.	D. Mont.		04-1163, -1164	no	no	-	
precedential	6-Jan-05	Bus. Objects, S.A. v. MicroStrategy, Inc.	N.D. Cal.	Breyer	04-1009	yes	no (affirm but clarify)	no	
non-precedential	6-Jan-05	NCR Corp. v. Palm, Inc.	D. Del.		04-1053	yes	no	-	
non-precedential	6-Jan-05	Velaflex, Inc. v. KSR Int'l Co.	E.D. Mich.		04-1162	no	no	-	
non-precedential	6-Jan-05	Freeman v. Gerber Prods. Co.	D. Kan.		04-1203, -1204	yes	no	no	
precedential	5-Jan-05	Elecs. for Imaging, Inc. v. Coyle Corp.	N.D. Cal.	Judge Martin J. Jenkins	04-1266	no	no	-	
precedential	4-Jan-05	Brooks Furniture Mfg., Inc. v. Dutilleul Int'l, Inc.	E.D. Tenn.	Callier	03-1379	no	no	-	
precedential	3-Jan-05	Star Fruits S.N.C. v. United States	E.D. Va.	Brinkema	04-1160	no	no	-	
precedential	29-Dec-04	Stephens v. Tech Int'l, Inc.	D. Nev.	Judge David W. Hegen	04-1215	no	no	-	
non-precedential	23-Dec-04	Anheuser-Busch Cos., v. Crown Cork & Seal Techn.	W.D. Vts.		04-1185, -1188	yes	yes	yes (reversed in part and remanded)	
precedential	21-Dec-04	In re Crish	PTO		04-1075	yes	no	-	
non-precedential	16-Dec-04	Piecznik v. Dyax Corp.	D. Mass.		04-1221	no	no	-	
precedential	14-Dec-04	Versa Corp., v. Ag-Bag Int'l Ltd.	D. Or.	Hubel	03-1445	yes	yes	yes	
precedential	14-Dec-04	NTP, Inc. v. Research-In-Motion, Inc.	E.D. Va.	Spencer	03-1615	yes	yes (reversed-in part)	yes (remanded)	
precedential	14-Dec-04	Iron Grip Barbell Co. v. USA Sports, Inc.	C.D. Cal.	Taylor	04-1149	no	no	-	
non-precedential	10-Dec-04	In re Dash	PTO		04-1145	yes	no	no	
non-precedential	10-Dec-04	Alza Corp. v. Mylan Labs., Inc.	D. Vt.	Session, III	04-1344	yes	no	no	
non-precedential	7-Dec-04	In re Beasley	PTO		04-1225	no	no	no	
precedential	6-Dec-04	Caminicut, L.L.C. v. Esab Group, Inc.	D.N.H.	McAuliffe	03-1574, -1614	no	no	no	
precedential	2-Dec-04	In re Fulton	PTO		04-1267	no	no	no	
non-precedential	2-Dec-04	Colida v. Sanyo N. Am. Corp.	S.D. Cal.		04-1287	no	no	no	
non-precedential	1-Dec-04	Slip Track Sys., Inc. v. Metel Lite, Inc. Frank's Casing Crew & Rental Tools, Inc. v. Weatherford Int'l, Inc.	C.D. Cal.		04-1070	yes	no (claims construed for first time)	no	
precedential	30-Nov-04	Kyocera Wireless Corp. v. President Electronics, Ltd.	W.D. Okla.	Stephen P. Friot	03-1519, -1563	yes	no	no	
non-precedential	30-Nov-04	Bernhardt, L.L.C. v. Collezione Europa USA, Inc.	S.D. Cal.		04-1345	no	no	-	
non-precedential	17-Nov-04	Bernhardt, L.L.C. v. Collezione Europa USA, Inc.	D.N.J.		04-1310	no	no	-	
non-precedential	11-Nov-04	Catalina Mktg. Int'l, Inc. v. Coolswings.com, Inc.	N.D. Ill.		03-1548, -1627	yes	no	no	
precedential	10-Nov-04	Campbell Plastics Eng'g & Mfg., Inc. v. Brownlee	A.S.B.C.A.		03-1512	no	no	no	
non-precedential	3-Nov-04	Colida v. Matsushita Elec. Corp. for Am.	D.N.J.		04-1348	no	no	no	
precedential	29-Oct-04	G.R. Bard, Inc. v. United States Surgical Corp.	D. Del.	Kent A. Jordan	04-1135	yes	no	no	
precedential	28-Oct-04	Caterpillar, Inc. v. Sturman Indus., Inc.	C.D. Ill.	Joe Billy McDade	03-1444, -1490	no	no	no	
precedential	25-Oct-04	Capo, Inc. v. Diopics Med. Prods., Inc.	M.D. Fla.	Anne C. Conway	04-1045	no	no	no	
precedential	20-Oct-04	Bernhardt, L.L.C. v. Collezione Europa USA, Inc.	M.D.N.C.	Frank W. Bullock, Jr.	04-1024	no	no	no	
precedential	13-Oct-04	On-Line Techs., Inc. v. Bodenseewerk Perkin-Elmer GmbH	D. Conn.	Janet Bond Arterton	04-1291	yes	yes	yes (vacate and remand)	
precedential	7-Oct-04	Fuji Photo Film Co. v. Int'l Trade Comm'n	Int'l Trade Comm'n		03-1016, -1488	yes	yes	yes (vacate-in part and remand)	
precedential	7-Oct-04	VastFrame Camera Ltd. v. Int'l Trade Comm'n	Int'l Trade Comm'n		03-1426, -1489	no	no	no	
precedential	7-Oct-04	Bilstad v. Wakaigalos	PTO		03-1528	yes	no	no	
precedential	4-Oct-04	Instaform Techs., Inc. v. Cal Contracting, Inc.	S.D. Tex.		99-1584, 00-1005	no	no	no	
precedential	30-Sep-04	Lab. Corp. of Am. Holdings v. Chiron Corp.	D. Del.	Sue L. Robinson	03-1572	no	no	no	
precedential	30-Sep-04	Astrazeneca AB v. Mutual Pharm. Co.	E.D. Pa.	Michael M. Baylson	04-1100	yes	yes	yes (reverse and remand)	
precedential	16-Sep-04	Gemstar-TV Guide Int'l, Inc. v. Int'l Trade Comm'n	Int'l Trade Comm'n		03-1052	yes	yes	yes (vacate and remand)	
precedential	14-Sep-04	Poly-Am., L.P. v. GSE Lining Tech, Inc.	N.D. Tex.	Sidney A. Fitzwater	04-1022	yes	no	no	
precedential	14-Sep-04	Irdeto Access, Inc. v. EchoStar Satellite Corp.	D. Colo.	Richard P. Matsch	04-1154	yes	no	no	
precedential	13-Sep-04	Knor-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.	E.D. Va.	T. S. Ellis, III	01-1357, -1376, 02-1221, -1266	no	no	no	
precedential	13-Sep-04	Toro Co. v. White Consol. Indus., Inc.	D. Minn.	Danovan W. Frank	03-1424	no	no	no	
precedential	13-Sep-04	Int'l Rectifier Corp. v. IXYS Corp.	C.D. Cal.	Manuel L. Real	04-1014	no	no	no	
precedential	7-Sep-04	Monsanto Co. v. Ralph	E.D. Mo.	Rodney W. Sippel	03-1243, 04-1001	no	no	no	
precedential	3-Sep-04	Lighting World, Inc. v. Birchwood Lighting, Inc.	C.D. Cal.	Percy Anderson	03-1534, -1535	yes	yes	yes (remanded)	
precedential	3-Sep-04	Juicy Whip, Inc. v. Orange Bang, Inc.	C.D. Cal.	Audrey B. Collins	03-1609	no	no	no	
precedential	31-Aug-04	Cardiac Pacemakers, Inc. v. St. Jude Med., Inc.	S.D. Ind.	David F. Hamilton	02-1532, 1659	yes	yes (modified)	yes (remanded)	
precedential	31-Aug-04	Home Diagnostics, Inc. v. Lifescan, Inc.	N.D. Cal.	James Ware	03-1370	yes	yes	yes (vacate and remand)	
precedential	31-Aug-04	Xechem Int'l, Inc. v. Univ. of Texas M.D. Anderson Cancer Ctr.	S.D. Tex.	Ewing Werlein, Jr.	03-1406	no	no	no	
precedential	31-Aug-04	Chamberlain Group, Inc. v. Skylink Techs., Inc.	N.D. Ill.	Rebecca R. Pallmeyer	04-1118	no	no	no	
precedential	24-Aug-04	In re Biglio	PTO	n/a	03-1358	yes	no	no	
precedential	23-Aug-04	Koibo Mfg. Co. v. Turn-Key-Tech, LLC	S.D. Cal.	Judge Marilyn L. Huff	03-1565, -1603	no	no	no	
precedential	18-Aug-04	In re Kopfenstein	PTO	n/a	03-1583	no	no	no	
precedential	17-Aug-04	Linear Tech. Corp. v. Impala Linear Corp.	N.D. Cal.	Vaughn R. Walker	02-1569, -1576	yes	yes	yes (vacate and remand)	

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)									
STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?	
precedential	17-Aug-04	Power Mosfet Techs., LLC v. Siemens AG	E.D. Tex.	David Folsom	03-1083, -1469, -1470, -1471	yes	no	no (judgment of non-infringement affirmed)	
precedential	16-Aug-04	In re Elster	PTO	n/a	03-1569, 03-1565	no	no	no	
precedential	11-Aug-04	In re Waltech	PTO	n/a	03-1327	no	no	no	
precedential	11-Aug-04	InnovoPure Water, Inc. v. Safari Water Filtration Sys., Inc.	M.D. Fla.	Steven D. Merryday	04-1097	yes	yes	yes (vacate and remand)	
precedential	29-Jul-04	Mars, Inc. v. H.J. Heinz Co.	C.D. Cal.	R. Gary Klausner	03-1617	yes	yes	yes (vacate and remand)	
precedential	27-Jul-04	High Concrete Structures, Inc. v. New Enter. Stone & Lime Co.	E.D. Pa.	Franklin S. Van Antwerpen	03-1477	no	no	no	
precedential	27-Jul-04	Glaxo Group Ltd. v. Apotex, Inc.	N.D. Ill.	Robert W. Gettleman	03-1575	yes	no	no	
precedential	20-Jul-04	Eli Lilly & Co. v. Aradigm Corp.	S.D. Ind.	Richard L. Young	03-1336, -1337	no	no	no	
precedential	13-Jul-04	AFS Indus., Inc. v. Asahi Glass Co.	E.D. Tenn.	Thomas Gray Hill	03-1076	no	no	no	
precedential	12-Jul-04	Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.	W.D. Okla.	Robin J. Caultron	03-1472, -1473	yes	no	no	
precedential	8-Jul-04	Novartis Pharms. Corp. v. Abbott Labs.	D. Del.	Joseph J. Ferman, Jr.	03-1367, -1393	yes	yes	no (affirmed grant of JMOL for non-infringement)	
precedential	8-Jul-04	Pellegrini v. Analog Devices, Inc.	D. Mass.	Rya W. Zobel	04-1054	no	no	no	
precedential	6-Jul-04	TypeRight Keyboard Corp. v. Microsoft Corp.	S.D. Cal.	Irma E. Gonzalez	03-1197, -1255	no	no	no	
precedential	6-Jul-04	Searfoss v. Pioneer Consol. Corp.	E.D. Mich.	Robert H. Cleland	03-1606	yes	no	no	
precedential	30-Jun-04	TI Group Auto. Sys., L.L.C. v. VDO N. Am., L.L.C.	D. Del.	Gregory M. Sleet	02-1630, 03-1482	yes	yes (affirm-in-part, reverse-in-part)	yes (vacate JMOL on invalidity and remand)	
precedential	30-Jun-04	Competitive Techs., Inc. v. Fujitsu Ltd.	N.D. Cal.	Joseph C. Spero	03-1380	no	no	no	
precedential	28-Jun-04	Nystrom v. Trex Co.	E.D. Va.	Jerome B. Friedman	03-1092	yes	yes	yes (reverse and remand)	
precedential	23-Jun-04	Goldenberg v. Cytogen, Inc.	D.N.J.	Anne E. Thompson	03-1409	yes	yes	yes (affirms but clarifies)	
precedential	17-Jun-04	Linear Tech. Corp. v. Impala Linear Corp.	N.D. Cal.	Vaughn R. Walker	02-1569, -1576	yes	yes	yes (vacate and remand)	
precedential	8-Jun-04	Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings	D. Colo.	Zita L. Weinschenk	03-1120	yes	no	no	
precedential	7-Jun-04	WE Hall Co. v. Atlanta Corrugating, L.L.C.	N.D. Ga.	Jack T. Camp	03-1417	yes	no	no	
precedential	2-Jun-04	Honeywell Int'l Inc. v. Hamilton Sundstrand Corp.	D. Del.	Gregory M. Sleet	02-1005, -1082	no	no	no	
precedential	28-May-04	Jacobs v. Nintendo of Am., Inc.	M.D. Fla.	Gregory A. Presnell	03-1297	no	no	no	
non-precedential	24-May-04	VLT, Inc. v. Artesyn Techs., Inc.	D. Mass.		03-1505, -1506, -1507, -1508, -1509	yes	no	no	
precedential	19-May-04	Knoll Pharm. Co. v. Tee Pharms. USA, Inc.	N.D. Ill.	John W. Darrah	03-1300	no	no	no	
non-precedential	18-May-04	Edwards Sys. Tech., Inc. v. Digital Control Sys., Inc.	D. Or.		03-1116, -1166, -1419	yes	yes	yes	
precedential	13-May-04	Microchip Tech. Inc. v. U.S. Philips Corp.	D. Ariz.	Paul G. Rosenblatt	03-1478	no	no	no	
precedential	13-May-04	In re Am. Acad. of Sci. Tech. Ctr.	PTO	n/a	03-1531 (Reexamination No. 90/003463)	yes	no	no	
precedential	10-May-04	Intirtool, Ltd. v. Texar Corp.	E.D. Tex.	Paul N. Brown	03-1394	yes	yes (constructed preamble)	yes	
precedential	7-May-04	Housey Pharms., Inc. v. AstraZeneca UK Ltd.	D. Del.	Sue L. Robinson	03-1193, -1210	yes	no	no	
precedential	5-May-04	Elan Corp. v. Andrax Pharms., Inc.	S.D. Fla.	Adalberto Jordan	03-1364, -1355, -1386, -1387	no	no	no	
precedential	4-May-04	Stevens v. Tamai	PTO		03-1479 (Interference No. 103.662)	no	no	no	
non-precedential	4-May-04	Leoutsakos v. Coll's Hosp. Pharm., Inc.	D.N.H.		03-1533	yes	no	no	
precedential	3-May-04	Vanderlande Indus. Nederland BV v. Int'l Trade Comm'n	Int'l Trade Comm'n		03-1349	yes	yes (narrowed some limitations)	no	
precedential	23-Apr-04	SmithKline Beecham Corp. v. Apotex Corp.	N.D. Ill.	Richard A. Posner	03-1285, -1313	yes	yes	no (patent held invalid so non-infringement affirmed)	
precedential	23-Apr-04	Scanner Techs. Corp. v. Icos Vision Sys. Corp.	S.D.N.Y.	Denny Chin	03-1465	yes	yes	yes (vacate and remand)	
precedential	19-Apr-04	Golden Blount, Inc. v. Robert H. Peterson Co.	N.D. Tex.	Jerry Buchmeyer	03-1298	yes	no	no	
precedential	13-Apr-04	Sierra Applied Scis., Inc. v. Advanced Energy Indus., Inc.	D. Colo.	Lewis T. Babcock	03-1356	no	no	no	
precedential	9-Apr-04	Monsanto Co. v. McFering	E.D. Mo.	Catherine D. Perry	03-1177, -1228	no	no	no	
precedential	8-Apr-04	Inland Steel Co. v. LTV Steel Co.	N.D. Ill.	George W. Lindberg	03-1483	no	no	no	
precedential	8-Apr-04	Phillips v. AWH	D. Colo.	Marcia S. Krieger	03-1269, -1286	yes	yes	no (not expressly reversed, but noted as incorrect)	
non-precedential	7-Apr-04	In re Nylen	PTO	n/a	03-1571	no	no	no	
precedential	6-Apr-04	Norian Corp. v. Stryker Corp.	N.D. Cal.	William Alsup	02-1490, -1506, -1507	yes	yes	yes (reversed construction of "consisting of")	
precedential	2-Apr-04	Novartis Pharms. Corp. v. Eon Labs Mfg. Inc.	D. Del.	Joseph J. Ferman, Jr.	03-1211, -1260	yes	no	no	
precedential	1-Apr-04	Gaus v. Conair Corp.	S.D.N.Y.	Frank Maas	03-1295, -1310	yes	no	no	
precedential	31-Mar-04	Unova, Inc. v. Acer Inc.	C.D. Cal.	Edward Raderdie	03-1244	no	no	no	
precedential	31-Mar-04	Madamec Holdings Corp. v. U.S. Philips Corp.	S.D.N.Y.	Laura Taylor Swain	03-1305, -1306	no	no	no	
precedential	30-Mar-04	Chiron Corp. v. Genentech, Inc.	E.D. Cal.	William B. Shubb	03-1158	no	no	no	
precedential	30-Mar-04	Monsanto Corp. v. Bayer Bioscience	E.D. Mo.	E. Richard Webber	03-1201	yes	yes	yes (reverse & remand)	
non-precedential	30-Mar-04	Ultratech Stepper, Inc. v. ASM Lithography, Inc.	N.D. Cal.		03-1405	yes	yes	yes (reverse & remand)	
precedential	26-Mar-04	Summit Tech., Inc. v. Nidek Co.	D. Mass.	Edward F. Harrington	03-1214	no	no	no	

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)

STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?
precedential	25-Mar-04	Knik Co. v. Int'l Trade Comm'n	Int'l Trade Comm'n		02-1550	yes	yes (narrowed construction)	yes (reversed)
precedential	24-Mar-04	Arnold P'ship v. Dudas	E.D. Va.	Leonie M. Brinkema	03-1339	no	no	no
precedential	23-Mar-04	Globetrotter Software, Inc. v. Elan Computer Group, Inc.	N.D. Cal.	Jeremy Fogel	03-1179	yes	yes	yes (vacate and remand)
precedential	22-Mar-04	In re Sullivan	PTO	n/a	03-1276	no	no	no
precedential	18-Mar-04	Int'l Rectifier Corp. v. Samsung Elecs., Ltd.	C.D. Cal.	Manuel L. Real	02-1324, -1334, -1370, -1426	no	no	no
precedential	18-Mar-04	Int'l Rectifier Corp. v. IXYS Corp.	C.D. Cal.	Manuel L. Real	02-1414, -1554	yes	yes	yes (vacate and remand)
precedential	17-Mar-04	Bristol-Myers Squibb Co. v. Pharmachemie B.V.	D.N.J.	Mary L. Cooper	03-1077	no	no	no
non-precendential	17-Mar-04	Kemin Foods, L.C. v. Pigmentos Vegetales del Centro S.A. de C.V.	S.D. Iowa		03-1204	yes	yes	yes (reverse prelim injunction order)
precedential	9-Mar-04	Weiss v. Reebok Int'l, Ltd.	D. Mass.		02-1471	no	no	no
precedential	8-Mar-04	Q-Pharma, Inc. v. Andrew Jergens Co.	W.D. Wash.	Marsha J. Pechman	03-1184	no	no	no
non-precendential	8-Mar-04	In re Nagy	PTO	n/a	03-1524	no	no	no
non-precendential	8-Mar-04	In re Ngai	PTO	n/a	03-1524	no	no	no
precedential	5-Mar-04	Gen-Probe Inc. v. Vysis, Inc.	S.D. Cal.	Marilyn L. Huff	02-1617, -1618	no	no	no
precedential	1-Mar-04	Bencorp Servs., L.L.C. v. Hartford Life Ins. Co.	E.D. Mo.	Carol E. Jackson	03-1191	no	no	no
precedential	27-Feb-04	Pfizer, Inc. v. Dr. Reddy's Labs., Ltd.	D.N.J.	Katherine S. Hayden	03-1227, -1256	no	no	no
non-precendential	26-Feb-04	Am. Seating Co. v. USSC Group, Inc.	W.D. Mich.		03-1429	yes	yes	yes (reverse in part, affirm in part, and remand)
non-precendential	20-Feb-04	Mycogen Plant Sci., Inc. v. Monsanto Co.			06-1127	no	no	no
precedential	20-Feb-04	Chef Am., Inc. v. Lamb-Weston, Inc.	D. Colo.	Edward W. Nottingham	03-1279	yes	no	no
precedential	17-Feb-04	Sulzer Textil A.G. v. Picanol N.V.	E.D. Tex.	Harry W. McKee	02-1410, -1441	no	no	no
precedential	13-Feb-04	Univ. of Rochester v. G.D. Searle & Co.	W.D.N.Y.	David S. Lerner	03-1304	no	no	no
precedential	12-Feb-04	Superguide Corp. v. Directv Enters., Inc.	W.D.N.C.	Lacy H. Thornburg	02-1561, -1562, -1594	yes	yes	yes (affirm-in-part, reverse-in-part, vacate, & remand)
precedential	12-Feb-04	Rocket Jewelry Box, Inc. v. Quality Int'l Packaging, Ltd.	S.D.N.Y.		03-1307	no	no	no
precedential	11-Feb-04	Liebel-Fleischer Co. v. Medrad, Inc.	S.D. Ohio	Sandra S. Beckwith	03-1082, -1165	yes	yes	yes (reverse and remand)
non-precendential	11-Feb-04	Intergraph Corp. v. Intel Corp.	E.D. Tex.		03-1153	yes	yes	yes (vacate and remand)
precedential	5-Feb-04	In re Morgan	PTO	n/a	03-1401	no	no	no
precedential	4-Feb-04	Fieldurf, Inc. v. Southwest Recreational Indus., Inc.	E.D. Ky.	Joseph M. Hood	03-1167	no	no	no
precedential	4-Feb-04	Nomos Corp. v. Brainlab USA, Inc.	D. Del.	Joseph J. Farnan, Jr.	03-1364	yes	no	no
precedential	3-Feb-04	Microsoft Corp. v. Multi-Tech Sys., Inc.	D. Minn.	Ann D. Montgomery	03-1138, -1139	yes	yes	no
non-precendential	2-Feb-04	Epcon Gas Sys., Inc. v. Bauer Compressors, Inc.	E.D. Mich.		03-1303	yes	no	(lower court erred on remand)
			E.D. Va. and D.N.J.	Rebecca Beach Smith and William H. Walls	02-1581, -1612, 03-1011	no	no	no
precedential	29-Jan-04	SmithKline Beecham Corp. v. Excel Pharms., Inc.	D.N.J.		03-1013	no	no	no
precedential	29-Jan-04	Glaxo Wellcome, Inc. v. Impax Labs., Inc.	N.D. Cal.	Marilyn Hall Patel		no	no	no
						no (court concluded it was unnecessary, albeit relevant)	no	no
precedential	29-Jan-04	Natl Steel Car, Ltd. v. Canadian Pac. Ry., Ltd.	E.D. Pa.	Mery A. McLaughlin	03-1256	no	no	no
precedential	29-Jan-04	Ruiz v. A.B. Chance Co.	E.D. Mo.	Catherine D. Perry	03-1333	no	no	no
non-precendential	29-Jan-04	Schwarz Pharma, Inc. v. Warner-Lambert Co.	D.N.J.		03-1384	yes	yes	yes (vacate and remand)
precedential	20-Jan-04	Golight, Inc. v. Wal-Mart Stores, Inc.	D. Colo.	Zita L. Weinschenk	02-1608	yes	no	no
precedential	20-Jan-04	PSC Computer Prods., Inc. v. Foxconn Int'l, Inc.	C.D. Cal.	Dean D. Pregerson	03-1089	no	no	no
						no (but held that et al. in not construing)	no	no
precedential	20-Jan-04	Toro Co. v. Deere & Co.	D. Minn.	David S. Doty	03-1160, -1161	no	no	no
non-precendential	16-Jan-04	Minka Lighting, Inc. v. Greffmade Int'l Inc.	N.D. Tex.		03-1162	yes	no	no
non-precendential	16-Jan-04	Inline Connection Corp. v. Allentech Online, Inc.	D. Md.		03-1397	no	no	no
precedential	15-Jan-04	In re Watts	PTO	n/a	03-1121	no	no	no
non-precendential	15-Jan-04	Aeration Solutions, Inc. v. Dickman	W.D. Tenn.		03-1284	no	no	no
non-precendential	15-Jan-04	Hemphill v. Proctor & Gamble Co.	D. Md.		03-1463	yes	no	no (doct' of collateral estoppel applied)
non-precendential	14-Jan-04	Scimed Life Sys., Inc. v. Johnson & Johnson	D. Del.		03-1155	yes	no	no
precedential	8-Jan-04	In re Curtis	PTO	n/a	03-1215	no	no	no
non-precendential	23-Dec-03	Pharmacia & Upjohn Co. v. Ranbaxy Pharms., Inc.	D.N.J.		03-1536, -1566	Yes	No	No
non-precendential	17-Dec-03	Specialty Rental Tools & Supply, Inc. v. Boyd's Bit Service			02-1530, 03-1066	No	No	No
non-precendential	11-Dec-03	Astra Aktiebolag v. Andrx Pharms., Inc.	S.D.N.Y.		01-1101, -1102, -1103, -1104, -1105, -1106, -1131, -1132, -1133, -1134, -1135, -1136, -1171, -1172, -1173	Yes	No	No

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)								
STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?
precedential	11-Dec-03	Kumar v. Ovonic Battery Co.	D. Mass.		02-1551, -1574, -03-1091+C37	Yes	Yes	Yes - Vacated and Remanded.
precedential	9-Dec-03	Ulead Systems, Inc. v. Lex Computer & Mgmt. Corp.	C.D. Cal.	Dickran Tevitzian	01-1320, -1402, -1448	No	No	No
precedential	9-Dec-03	Sulzer Textile A.G. v. Picanol N.V.	E.D. Tex.	Harry W. McKee	02-1410, -1441	No	No	No
precedential	9-Dec-03	Encison, Inc. v. Harris Corp.	E.D. Tex.	Paul Brown	02-1571	No	No	No
non-precedential	9-Dec-03	Manchik v. Agronomics Mgmt. Group, Inc.	D. Del.		03-1240	Yes	No	No
non-precedential	9-Dec-03	In re Sullivan	PTO		03-1278	No	No	No
precedential	5-Dec-03	Novo Indus., L.P. v. Micro Molds Corp.	S.D. Fla.	Paul C. Huck	03-1230	Yes	Yes	Yes - claim held indefinite under § 112
precedential	4-Dec-03	Beuregard v. Mega Sys., L.L.C.	E.D. Tex.	William M. Steger	02-1380	Yes	Yes	Yes - Vacated and Remanded.
precedential	4-Dec-03	Utah Med. Prods., Inc. v. Graphic Conrete Corp.	D. Utah	Tena Campbell	03-1081	Yes	No	No
precedential	2-Dec-03	3M Innovative Proprs. Co. v. Avery Dennison Corp.	D. Minn.	Judge David S. Doty	03-1203	Yes	Yes	Yes - reverse summary judgment as to non-infringement, and Remand
precedential	26-Nov-03	Phonometrics, Inc. v. Westin Hotel Co.	S.D. Fla.	Kenneth L. Ryskamp	02-1314	Yes	No	No
precedential	26-Nov-03	Ranbaxy Pharms., Inc. v. Apotex, Inc.	D.N.J.	Mary L. Cooper	02-1429	No	No	No
precedential	26-Nov-03	Phonometrics, Inc. v. Westin Hotel Co.	S.D. Fla.	Ryskamp	02-1501	No	No	No
non-precedential	26-Nov-03	Backyard Nature Prods., Inc. v. Woodlink, Ltd.	E.D. Wis.		03-1054, -1055	Yes	No	No
non-precedential	26-Nov-03	Soltec, S.A. v. Silicon Genesis Corp.	D. Mass.		03-1080, -1140	Yes	No	No
non-precedential	26-Nov-03	Robinson v. Camondale Corp.	C.D. Cal.		03-1338	Yes	Yes	Yes
precedential	21-Nov-03	Geneva Pharms., Inc. v. GlaxoSmithKline P.L.C.	E.D. Va.		02-1439	No	No	No
precedential	21-Nov-03	Phonometrics, Inc. v. Econ. Inns of Am.	S.D. Fla.	Kenneth L. Ryskamp	02-1502, -1503, -1504, -1505	Yes	No	No
precedential	20-Nov-03	Combined Sys., Inc. v. Def. Tech. Corp. of Am.	S.D.N.Y.	Danise Cole	903-1251	No	No	No
precedential	12-Nov-03	CFMT, Inc. v. Yieldup Int'l Corp.	D. Del.	Roderick R. McKelvie	01-1452	No	No	No
non-precedential	7-Nov-03	Regents of Univ. of Michigan v. Genesearch, L.L.C.	E.D. Mich.		03-1411	No	No	No
precedential	5-Nov-03	Velander v. Garner	PTO		02-1386	No	No	No
non-precedential	5-Nov-03	In re Iaco	PTO		03-1372	No	No	No
precedential	30-Oct-03	Merck & Co. v. Teva Pharms. USA, Inc.	D. Del.	Joseph J. Fagan, Jr.	03-1168	Yes	No	No
non-precedential	29-Oct-03	Harris Corp. v. Sanyo N. Am.	N.D. Tex.		02-1210, -1211	No	No	No
precedential	28-Oct-03	Talbert Fuel Sys. Patents Co. v. Unocal Corp.	C.D. Cal.		99-1421	No	No	No
precedential	27-Oct-03	Apotex, Inc. v. Thompson	D.D.C.	Thomas P. Jackson	02-1295	No	No	No
non-precedential	27-Oct-03	In re Wong	PTO		03-1322	No	No	No
non-precedential	23-Oct-03	Lear Corp. v. Bertrand Faure Technical Ctr., Inc.	E.D. Mich.		02-1583	Yes	Yes - construction noted as incorrect	Yes - Vacated and Remanded
precedential	22-Oct-03	Chen v. Bauwartz	PTO		03-1037	No	No	No
precedential	20-Oct-03	Polymer Indus. Prods. Co. v. Bridgestone/Firestone, Inc.	N.D. Ohio	David D. Dowd, Jr.	03-1176	No	No	No
precedential	17-Oct-03	Deering Precision Instruments, L.L.C. v. Vector Distribution Sys., Inc. v. Lansa, Inc.	N.D. Ill.	Harry D. Leinenweber	02-1013, -1197	Yes	Yes	No
precedential	16-Oct-03	Resnget.com, Inc. v. Lansa, Inc.	S.D.N.Y.	Robert W. Sweet	03-1163	Yes	Yes - district court construed one claim correctly, but two other claims incorrectly	Yes - Reversed-in-part and remanded
precedential	9-Oct-03	Genzyme Corp. v. Transkyonic Therapies, Inc.	D. Del.	Gregory M. Sleet	02-1312	Yes	Yes - but trial court properly construed claim term that precludes infringement, thus other construction errors are harmless.	No
precedential	8-Oct-03	ACTV, Inc. v. Walt Disney Co.	S.D.N.Y.	Jed S. Rakoff	02-1491	Yes	Yes	Yes - Vacated and Remanded.
non-precedential	8-Oct-03	Coldie v. Motorola, Inc.	N.D. Ill.		03-1357	No	No	No
non-precedential	8-Oct-03	Coldie v. LG Elecs., Inc.	D.N.J.		03-1399	No	No	No
precedential	7-Oct-03	Acco Brands, Inc. v. Micro Sec. Devices, Inc.	N.D. Cal.	Susan Illston	02-1567	Yes	No	No
precedential	7-Oct-03	State Contracting & Eng'g Corp. v. Condotte Am., Inc.	S.D. Fla.	William P. Dimitroules	02-1588, -1589, 03-1008	Yes	No - trial court had not yet construed the critical limitations	Yes - Affirmed-in-Part, Reversed-in-Part, and Remanded
precedential	2-Oct-03	Elan Pharms., Inc. v. Mayo Found. for Med. Educ. & Research	N.D. Cal.	William H. Alsup	00-1467	No	No	No
precedential	30-Sep-03	Cygnus Telecomms. Tech., L.L.C. v. Totalaccess.com, Inc.	N.D. Cal.	Ronald M. Whyte	02-1325	No	No	No
precedential	29-Sep-03	Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.	S.D. Fla.		00-1218, -1350	No	No	No
precedential	26-Sep-03	Paradise Creations, Inc. v. UV Sales, Inc.	S.D. Fla.	Kenneth L. Ryskamp	02-1283	No	No	No
non-precedential	26-Sep-03	Okor v. Atari Games Corp.	D. Mass.		02-1383, -1384, -1385	Yes	No	No
precedential	26-Sep-03	Taskett v. Dentlinger	PTO		03-1151	No	No	No
precedential	26-Sep-03	Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.	D. Mass.		95-1066	No	No	No
precedential	25-Sep-03	Arlington Indus., Inc. v. Bridgeport Fittings, Inc.	M.D. Pa.	Richard Caputo	02-1517, -1518	Yes	No	No
precedential	23-Sep-03	AK Steel Corp. v. Sollac	S.D. Ohio	Susan J. Dlott	03-1074, -1075, -1085, -1086	Yes	No	No

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)								
STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?
non-precedential	23-Sep-03	Piecznik v. Dyax Corp.	D. Mass.		03-1302	Yes	Yes - Court adopted a slightly different construction than the district court	No - district court's error was harmless
precedential	22-Sep-03	Galxo Wellcome Inc. v. Andrx Pharms., Inc.	S.D. Fla.	Wikie D. Ferguson, Jr.	02-1348	Yes	Yes	Yes - Vacated and Remanded.
precedential	22-Sep-03	Med. Instrumentation & Diagnostics Corp. v. Elekta A.B.	S.D. Cal.	Robert H. Whaley	03-1032	Yes	Yes	Yes - Reversed and Remanded.
non-precedential	17-Sep-03	Senior Techs., Inc. v. R.F. Techs., Inc.	D. Neb.		00-1089 -1090	No	No	No
non-precedential	17-Sep-03	Accusan, Inc. v. Xerox Corp.	S.D.N.Y.		00-1316, -1320, -1406	No	No	No
precedential	15-Sep-03	Akamai Techs., Inc. v. Cable & Wireless Internet Servs., Inc.	D. Mass.	Rya W. Zobel	03-1007	Yes	Yes although lower court had not construed claim term at issue on appeal	Yes - Reversed-in-Part and Vacated
non-precedential	12-Sep-03	Atmel Corp. v. Silicon Storage Tech., Inc.	N.D. Cal.		02-1522, -1523	Yes	No	No
precedential	10-Sep-03	Alloc, Inc. v. Int'l Trade Comm'n	Int'l Trade Comm'n		02-1222, -1291	Yes	No	No
precedential	8-Sep-03	Dana v. E.S. Originals, Inc.	S.D. Fla.	Wikie D. Ferguson, Jr.	02-1531	No	No	No
non-precedential	8-Sep-03	Turn-Key Tech. L.L.C. v. Nat'l Lab., Inc.	C.D. Cal.		02-1613, -1614, -1615, -1616	Yes	Yes	No - district court's error was harmless
non-precedential	8-Sep-03	Jansen v. Revall Sundown, Inc.	S.D. Ind.	John Daniel Tinder	03-1069	Yes	No	No
precedential	5-Sep-03	Dow Chem. Co. v. Mee Indus., Inc.	M.D. Fla.	Gregory A. Pressnell	03-1117	Yes	No	No
precedential	3-Sep-03	Univ. of W. Virginia v. Vanvoornies	N.D.W. Va.	W. Craig Broadwater	02-1533	No	No	No
precedential	3-Sep-03	Univ. of Colorado Found., Inc. v. Am. Cyanamid Co.	D. Colo.	John L. Kane, Jr.	02-1587	No	No	No
non-precedential	27-Aug-03	Litman Co. v. Quickie Mfg. Corp.	C.D. Ill.	Sue L. Robinson	03-1084, -1085	Yes	No	No
precedential	22-Aug-03	Bayer AG v. Housley Pharms., Inc.	D. Del.	Sue L. Robinson	02-1598	No	No	No
precedential	20-Aug-03	E-Pass Techs., Inc. v. 3Com Corp.	N.D. Cal.	D. Lowell Jensen	02-1593	Yes	Yes	Yes - Vacated and Remanded.
precedential	18-Aug-03	Elies, for Imaging, Inc. v. Coyle	N.D. Cal.	Martin J. Jenkins	02-1536	No	No	No
precedential	13-Aug-03	Anchor Wall Sys., Inc. v. Rockwood Retaining Walls, Inc.	D. Minn.	David S. Doty	02-1592	Yes	Yes	Yes - Reversed and Remanded.
precedential	12-Aug-03	Cardis Corp. v. Medtronic AVE, Inc.	D. Del.	Sue L. Robinson	02-1457, -1458, -1481, -1482	Yes	Yes	Yes - Reversed and Remanded.
precedential	7-Aug-03	Hewlett-Packard Co. v. Mustek Sys., Inc.	S.D. Cal.	Robert H. Whaley	1465	No	No	No
precedential	7-Aug-03	Forest Labs., Inc. v. Abbott Labs.	W.D.N.Y.	Richard J. Arcare	03-1067	No	No	No
precedential	6-Aug-03	BJ Servs. Co. v. Halliburton Energy Servs., Inc.	S.D. Tex.		02-1496	No	No	No
precedential	1-Aug-03	McNeil-PPC, Inc. v. L. Ferrigo Co.	E.D. Pa.	Berle M. Schiller	02-1516	No	No	No
precedential	1-Aug-03	Schering Corp. v. Geneva Pharms., Inc.	D.N.J.	John W. Bissell	02-1540, -1541, -1542, -1543, -1544, -1545, -1546, -1547, -1548, -1549 03-1021, -1022, -1023	No	No	No
precedential	29-Jul-03	Minton v. Nat'l Ass'n of Sec. Dealers, Inc.	E.D. Tex.	Victoria A. Roberts	1050	Yes	No	No
non-precedential	29-Jul-03	Simmons, Inc. v. Bombardier, Inc.	D. Utah		03-1045	Yes	Yes	Yes - Vacated and Remanded.
precedential	28-Jul-03	Ultra-Precision Mfg. Ltd. v. Ford Motor Co.	E.D. Mich.	Victoria A. Roberts	02-1622	No	No	No
non-precedential	25-Jul-03	Emergency Fuel L.L.C. v. Penzoi-Quaker State Co.	D. Md.		02-1391	Yes	No	No
precedential	23-Jul-03	Torgham Inc. v. Ranbaxy Pharms., Inc.	D.N.J.	John C. Liffand	02-1590	No	No	No
precedential	21-Jul-03	Intellectual Prop. Dev., Inc. v. UA-Columbia Cablevision of Westchester, Inc.	S.D.N.Y.	William H. Pauley III	02-1248	Yes	No	No
precedential	17-Jul-03	Sunrace Roots Enter. Co. v. Sram Corp.	N.D. Cal.	Vaughn H. Walker	02-1524	Yes	Yes	Yes - Reversed and Remanded.
non-precedential	16-Jul-03	ICN Photonics Ltd. v. Cynosure, Inc.	D. Mass.		02-1582	No	No	No
precedential	10-Jul-03	Abbott Labs. v. Syntron Bioreserch, Inc.	S.D. Cal.	Marilyn L. Huff	02-1203, -1257	Yes	Yes	Yes - Reversed and Remanded.
non-precedential	10-Jul-03	In re Gately	PTO		02-1529	No	No	No
precedential	10-Jul-03	Waymark Corp. v. Porta Sys. Corp.	S.D. Fla.	Donald M. Middlebrooke	03-1012	No	No	No
precedential	7-Jul-03	Omega Eng'g, Inc. v. Raytek Corp.	D. Conn.	Janet C. Hall	01-1546, 02-1478	Yes	Yes	Yes - Reversed and Remanded.
precedential	3-Jul-03	Abbott Labs. v. Baxter Pharm. Prods., Inc.	N.D. Ill.	Ronald A. Guzman	02-1400	Yes	Yes	Yes - Vacated and Remanded.
precedential	3-Jul-03	Ell Lilly & Co. v. Bd. of Regents of Univ. of Washington	PTO		02-1610	Yes	No	No
non-precedential	24-Jun-03	Adrain v. Hypertech, Inc.	D. Utah		02-1514	Yes	Yes	Yes - Reversed and Remanded.
precedential	23-Jun-03	Bd. of Educ. v. Am. Bioscience, Inc.	N.D. Fla.	Roger Vinson	02-1109	No	No	No
precedential	13-Jun-03	Tehrani v. Hamilton Med., Inc.	C.D. Cal.	Gary L. Taylor	02-1177, -1178, -1227	Yes	Yes	Yes - Vacated and Remanded.
precedential	6-Jun-03	Integra Lifesciences I, Ltd. v. Merck KGaA	S.D. Cal.	James M. Fitzgerald, District of Alaska	02-1052, -1065	Yes	No	No
precedential	4-Jun-03	Waner v. Ford Motor Co.	D.S.D.	Karen E. Schreier	02-1184, -1185	Yes	Yes	Yes - Affirmed-in-part, Reversed in-part.
precedential	2-Jun-03	Pioneer Magnetics, Inc. v. Micro Linear Corp.	C.D. Cal.		00-1012	No	No	No
non-precedential	30-May-03	Versa Corp. v. Ag-Bag Int'l Ltd.	D. Or.		02-1416	Yes	Yes	No
non-precedential	30-May-03	T.F.H. Pub'ns, Inc. v. Hartz Mountain Corp.	D.N.J.		02-1460	Yes	No	No
non-precedential	23-May-03	Marlow Indus., Inc. v. Igloo Prods. Corp.	N.D. Tex.		02-1386	No	No	No
precedential	23-May-03	Dayco Prods., Inc. v. Total Containment, Inc.	W.D. Mo.	Scott O. Wright	02-1497	Yes	Yes	Yes - Vacated and Remanded.
precedential	21-May-03	Anton/Bauer, Inc. v. Ppg, Ltd.	D. Conn.	Christopher F. Droney	02-1487	Yes	No	No
non-precedential	20-May-03	J.G. Peta, Inc. v. Club Protector, Inc.	N.D.N.Y.		02-1127, -1128	No	No	No

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)

STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?
precedential	13-May-03	Storage Tech. Corp. v. Cisco Sys., Inc.	N.D. Cal.	Susan Illston	02-1232	Yes	Yes	Yes - Affirmed-in-part, Vacated-in-part and Remanded.
precedential	7-May-03	Invitrogen Corp. v. Biocrest Mfg.	W.D. Tex.	Sam Sparks	02-1207, -1260	Yes	Yes	Yes - Vacated and Remanded.
non-precedential	8-May-03	Lamie v. Metall, Inc.	C.D. Cal.		02-1359	No	No	No
non-precedential	1-May-03	Nutting v. Ram Southwest, Inc.	D. Colo.		02-1361	No	No	No
non-precedential	1-May-03	Co. v. Newspring Indus. Corp. v. Sun Gem Plastics Enter.	D.N.J.		02-1450	Yes	No	No
non-precedential	29-Apr-03	Phonometrics, Inc. v. Choice Hotels Int'l, Inc.	S.D. Fla.		02-1360	No	No	No
non-precedential	29-Apr-03	Phonometrics, Inc. v. ITT Sheraton Corp.	S.D. Fla.		02-1417	No	No	No
non-precedential	23-Apr-03	Lopes v. Hardware Distribs., Ltd.	N.D. Minn.		02-1146	No	No	No
non-precedential	23-Apr-03	All Const. Fabrics, Inc. v. Dandy Prods., Inc.	E.D. Va.		02-1451	Yes	No	No
non-precedential	22-Apr-03	Glaxo Group Ltd. v. Apotex, Inc.	N.D. Ill.		02-1492	Yes	No	No
precedential	21-Apr-03	RF Delaware, Inc. v. Pac. Keystone Techs., Inc.	N.D. Ala.	Robert B. Propst	02-1508	Yes	Yes	Yes - Reversed and Remanded.
precedential	21-Apr-03	RF Delaware, Inc. v. Pac. Keystone Techs., Inc.	N.D. Ala.	Senior Judge Robert B. Propst	02-1508	Yes	Yes	Yes - Reversed and Remanded.
precedential	16-Apr-03	Silent Drive, Inc. v. Strong Indus., Inc.	N.D. Iowa	Mark W. Bennett	02-1329	No	No	No
precedential	15-Apr-03	Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.	S.D.N.Y.	Robert P. Patterson, Jr.	02-1280, -1281	No	No	No
precedential	11-Apr-03	Brookhill-Wilk I, L.L.C. v. Intuitive Surgical, Inc.	S.D.N.Y.	Naomi Reice Buchwald	02-1145	Yes	Yes	Yes - Reversed and Remanded.
non-precedential	8-Apr-03	Caputo v. Sealed Air Corp.	D.N.J.		02-1556	Yes	No	No
precedential	2-Apr-03	Apex Inc. v. Raritan Computer, Inc.	S.D.N.Y.	Milton Pollack	02-1303	Yes	Yes	Yes - Vacated and Remanded.
precedential	1-Apr-03	Moba, B.V. v. Diamond Automation, Inc.	E.D. Pa.	Bruce W. Kauffman	01-1063, -1083	Yes	Yes	Yes - Affirmed-in-part, Reversed-in-part and Remanded.
precedential	1-Apr-03	Bio-Tech. Gen. Corp. v. Duramed Pharms., Inc.	D.N.J.	Nicholas H. Pollan, Ret.	02-1195	Yes	Yes	Yes - Reversed and Remanded.
precedential	31-Mar-03	Hoffmann-La Roche, Inc. v. Promega Corp.	N.D. Cal.	Vaughn R. Walker	00-1372	No	No	No
precedential	31-Mar-03	Northrop Grumman Corp. v. Intel Corp.	E.D. Tex.	Thad Heartfield	02-1024, -1182	Yes	Yes	Yes - Reverse and Remand.
precedential	31-Mar-03	Riverwood Int'l Corp. v. R.A. Jones & Co.	N.D. Ga.	Beverly B. Martin	02-1030, -1154	Yes	Yes	No
precedential	28-Mar-03	Allergan, Inc. v. Alcon Labs., Inc.	C.D. Cal.	David O. Carter	02-1449	No	No	No
precedential	27-Mar-03	Eaton Corp. v. Rockwell Int'l Corp.	D. Del.	Joseph J. Faman, Jr.	01-1633, 02-1034, 1206	Yes	Yes	Yes - Vacated-in-part, Reversed-in-part, Affirmed-in-part.
non-precedential	27-Mar-03	Bell Communications Research, Inc. v. Fore Sys., Inc.	D. Del.		02-1083, -1084	Yes	Yes	Yes - Vacated and Remanded.
non-precedential	26-Mar-03	Lagan v. Original Honeybaked Ham Co. of Georgia	W.D. La.		02-1279	No	No	No
precedential	24-Mar-03	Lockheed Martin Corp. v. Space Sys./Loral, Inc.	N.D. Cal.		00-1310	Yes	No	No
precedential	20-Mar-03	Abbott Labs. v. Novopharm Ltd.	N.D. Ill.	John W. Darrah	02-1367	Yes	No	No
precedential	17-Mar-03	Mazzari v. Rogan	D.D.C.	Emmet G. Sullivan	02-1269	No	No	No
precedential	13-Mar-03	Lacks Indus., Inc. v. McKechnie Vehical Components USA, Inc.	E.D. Mich.	John Feikens	01-1371, -1395, -1396	Yes	No	No
non-precedential	7-Mar-03	Williams v. Gen. Surgical Innovations, Inc.	E.D. Tex.		02-1474	No	No	No
non-precedential	6-Mar-03	Robinson v. Fakepspace Labs, Inc.	E.D. Mich.		02-1152	No	No	No
non-precedential	5-Mar-03	Reese v. U.S. W., Inc.	D. Colo.		02-1633	Yes	No	No
non-precedential	4-Mar-03	Kim v. Earthgrains Co.	N.D. Ill.		03-1047	No	No	No
precedential	28-Feb-03	Regents of Univ. of New Mexico v. Knight	D.N.M.	John E. Conway	02-1016, -1019	No	No	No
precedential	28-Feb-03	Duro>Last, Inc. v. Custom Seal, Inc.	E.D. Mich.	Robert H. Cleland	02-1216, -1262	No	No	No
non-precedential	28-Feb-03	Kis, S.A. v. Foto Fantasy, Inc.	N.D. Tex.		02-1263, -1264	Yes	Yes	Yes - Vacated and Remanded.
precedential	21-Feb-03	Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.	D.N.J.	Harold A. Ackerman	02-1026, -1027	Yes	Yes	No - Error was harmless
precedential	21-Feb-03	Pandrol USA L.P. v. Airboss Railway Prods., Inc.	W.D. Mo.	Scott O. Wright	02-1067, -1355	Yes	No	No
non-precedential	21-Feb-03	Sys. Div., Inc. v. Teknek L.L.C.	C.D. Cal.		02-1229	Yes	Yes - Construction not expressly reversed, but noted as incorrect	Yes - Summary Judgment Vacated and Remanded
precedential	20-Feb-03	In re Berg	PTO		02-1120, -1160	No	No	No
non-precedential	20-Feb-03	Xerox Corp. v. 3Com Corp.	W.D.N.Y.		02-1186, -1305, -1321	Yes	No	No
precedential	14-Feb-03	Intel Corp. v. Via Techs., Inc.	N.D. Cal.	William H. Alsup	02-1212, 1213	No	No	No
precedential	13-Feb-03	Springs Window Fashions L.P. v. Novo Indus., L.P.	W.D. Wfs.	John C. Shabaz	02-1309, -1347	Yes	No	No
precedential	12-Feb-03	Tronzo v. Biomet, Inc.	S.D. Fla.	Daniel T. K. Hurley	01-1565	No	No	No
precedential	12-Feb-03	Alltris, Inc. v. Symantec Corp.	D. Utah	Dale A. Kimball	02-1137, -1138	Yes	Yes	Yes - Vacate (summary judgment) and Remanded.
non-precedential	5-Feb-03	Kensey Nash Corp. v. Perclose, Inc.	E.D. Pa.		02-1149	Yes	No	No - Fed. Cir. agreed with claim construction
precedential	5-Feb-03	Prima Tek II, L.L.C. v. Polypap	S.D. Ill.	Michael J. Reagan	02-1164	Yes	Yes	Yes - Vacate (summary judgment) and Remanded.
non-precedential	5-Feb-03	Pastore v. Structure Guard Inc.			02-1381	No	No	No
non-precedential	4-Feb-03	Deere & Co. v. Toro Co.	C.D. Ill.		02-1136	Yes	Yes	Yes - Reverse summary judgment as to non-infringement - Remanded.
precedential	31-Jan-03	Biogen, Inc. v. Berlex Labs., Inc.	D. Mass.	Mark L. Wolf	01-1056, -1059	Yes	No	No

Federal Circuit Opinions from District Court, PTO, and ITC Patent Cases (01/01/03 - 7/12/05)								
STATUS	DATE	CASE NAME	LOWER COURT	DISTRICT JUDGE	Number	Was Claim Construction at issue?	Was one or more claim constructions reversed?	Did it impact the result?
non-precedential	30-Jan-03	Molten Metal Equip. Innovations, Inc. v. Metallics Sys. Co.	N.D. Ohio		01-1409	Yes	No	No
precedential	29-Jan-03	Rambus Inc. v. Infineon Techns. AG	E.D. Va.	Robert E. Payne	01-1449, -1583, -1604, -1641, 02-1174, -1192	Yes	Yes	Yes - Vacates grant of JMOL of noninfringement and Remanded
precedential	29-Jan-03	Singh v. Brake	PTO		01-1621	No	No	No
precedential	29-Jan-03	Micro Chem. Inc. v. Lextron, Inc.	D. Colo.	Zita L. Weinschenk	02-1121	No	No	No
precedential	24-Jan-03	Micro Chem. Inc. v. Lextron, Inc.	N.D. Tex.	Mary Lou Robinson	02-1155	No	No	No
precedential	16-Jan-03	Warner-Lambert Co. v. Apotex Corp.	N.D. Ill.	Paul E. Plunkett	02-1073	No	No	No
non-precedential	14-Jan-03	Old Town Canoe Co. v. Glenwa, Inc.	D. Or.		02-1144	Yes	Yes	Yes - Reverse in-part. Vacate in-part (summary judgment) and Remanded
precedential	13-Jan-03	Piant Genetic Sys., N.V. v. DeKalb Genetics Corp.	D. Conn.	Dominic J. Squatrito	02-1011	Yes	No	No
precedential	9-Jan-03	Oakley, Inc. v. Sunglass Hut Int'l	C.D. Cal.	Alicemarie H. Stoller	02-1132	Yes	No	No
precedential	8-Jan-03	In re Paterson	PTO		02-1129	No	No	No
non-precedential	7-Jan-03	Ziaro v. Am. Nat'l Red Cross	N.D. Ill.		02-1147, -1253	No	No	No
precedential	6-Jan-03	Amgen Inc. v. Hoechst Marion Roussel, Inc.	D. Mass.	William G. Young	01-1191, -1218	Yes	No	No

PRIVILEGED COMMUNICATIONS WITH ALLEGED WILLFUL INFRINGERS POST *KNORR-BREMSE*

*Lynne Maher & Lynn Pasahow
Fernwick & West
Mountain View, CA*

I. INTRODUCTION

For the last twenty-one years, an unsuccessful patent litigation defendant accused of willful infringement suffered a special penalty for asserting attorney-client privilege or work-product protection as to legal advice it received regarding the asserted patent. As in all cases, the jury was instructed as to the standard for willfulness: that a defendant with notice of a patent has an affirmative duty to exercise due care to determine whether it is infringing the patent, including the duty to seek and obtain competent legal advice from counsel before the initiation of possibly infringing activity. As a consequence of the defendant's assertion of its privilege, however, the jury additionally was instructed that it should presume that the defendant either obtained no advice of counsel, or did so and was advised that its actions would infringe a valid patent.¹

In its *en banc Knorr-Bremse*² opinion in September 2004, the Federal Circuit unanimously overruled its precedent mandating the adverse presumption resulting from assertion of attorney-client privilege or work-product protection. The pressures the presumption placed on a party to disclose its privileged communications, the court held, unduly intruded upon "the public interest in encouraging open and confident relationships between client and attorney."³ The court, however, left other aspects of existing willfulness law, including the underlying due care duty, intact, provoking a dissent as to this issue pointing out the likely limited effectiveness of the court's action in curing the problems it described in existing law.⁴

As the Federal Circuit and district courts resolve the several questions left unanswered by *Knorr-Bremse*, attorneys must continue to advise their clients regarding and litigate ongoing patent disputes. The following sections first summarize the law underlying *Knorr-Bremse*, next summarize the court's opinion, and then discuss how attorneys might advise clients about patent risks in light of the post-*Knorr-Bremse* state of the law.

II. THE PRE-*KNORR-BREMSE* STATE OF THE LAW

Upon a patentee's showing that an infringing party willfully infringed a valid patent, the Patent Act permits that the court may impose increased damages, up to three times the actual damages assessed.⁵ Such increased damages are considered punitive in nature and a means of deterring deliberate infringement.⁶

In 1983, just a year after the Federal Circuit began its work, in *Underwater Devices* the court set out its test for willful infringement, holding that where "a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether

¹ See generally *infra* notes 7-15 and accompanying text.

² *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, Nos. 01-1357, 01-1376, 02-1221 and 02-1256, 2004 U.S. App. LEXIS 19185 (Fed. Cir. Sept. 13, 2004).

³ *Id.* at *18.

⁴ *Id.* at *38-40 (Dyk, concurring-in-part and dissenting-in-part).

⁵ 35 U.S.C. Section 284; see *Sharper Image Corp. v. Honeywell Int'l Inc.*, No. C 02-4860, 2004 U.S. Dist. LEXIS 14796, *19 and n.13 (N.D. Cal. July 28, 2004) (noting that "[t]he purpose of empowering judges to enhance damages is to equip them to respond appropriately when the defendant's conduct moved beyond mere liability and into the zone of culpability" and citing to *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576 (Fed. Cir. 1991)).

⁶ See, e.g., *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992); *SRI Int'l v. Advanced Tech. Lab.*, 127 F.3d 1462, 1464 (Fed. Cir. 1997) ("the Patent Act authorizes the court to 'increase the damages up to three times the amount found or assessed.'" The statute prescribes no standards for such increase, but . . . The statute [] recognizes the tortious nature of patent infringement and the public interest in a stable patent right, for enhanced damages are not compensatory but punitive.").

or not he is infringing,” including “the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.”⁷ Whether an infringer has disregarded this duty and willfully infringed is a question of fact, “for it includes elements of intent, reasonableness, and belief,”⁸ and it must be established by clear and convincing evidence.⁹ In deciding whether a defendant’s infringement was “willful,” the trier of fact must consider “the totality of the circumstances” and ask whether in light of those circumstances “a reasonable person would prudently conduct himself with any confidence that a court might hold the patent invalid and not infringed.”¹⁰

The Federal Circuit has set forth various lists of factors to assist trial courts “in evaluating the degree of the infringer’s culpability and in determining whether to exercise its discretion to award enhanced damages and how much the damages should be increased.”¹¹ Three of these factors principally concern whether willful misconduct occurred:

- (1) whether the infringer deliberately copied the ideas or design of another;
- (2) whether the infringer, when he knew of other patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; and,
- (3) the infringer’s behavior as a part to the litigation.

Other factors also may be considered, however, although they more commonly help determine the extent of enhancement once willfulness has been found:

- (4) defendant’s size and financial condition;
- (5) closeness of the case;
- (6) duration of defendant’s misconduct;
- (7) remedial action by the defendant;
- (8) defendant’s motivation for harm; and,
- (9) whether the defendant attempted to conceal its misconduct.¹²

Although the totality-of-the-circumstances test thus theoretically considered many factors, there was a widely shared perception the weightiest of factors is whether the accused willful infringer sought and received a competent legal opinion as to non-infringement, invalidity or unenforceability upon notice of the patent.¹³

Shortly after its 1983 *Underwater Devices* opinion, in which the Federal Circuit created the affirmative duty to exercise due care, including the usual “duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity,”¹⁴ the court held that where an accused willful infringer fails to produce exculpatory legal advice, the court is free to infer that either no advice of counsel or opinion letter was obtained, or if an opinion was obtained, that it was adverse to the alleged infringer’s desired actions.¹⁵ The adverse inference permitted by this line of

7 *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

8 *Pall Corp. v. Micron Separations*, 66 F.3d 1211, 1221 (Fed. Cir. 1995); see also *Underwater Devices*, 717 F.2d at 1389-90.

9 *Comark Commun. v. Harris Corp.*, 156 F.3d 1182, 1190 (Fed. Cir. 1998).

10 See, e.g., *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185, at *12-13 (“Determination of willfulness is made on consideration of the totality of the circumstances, and may include contributions of several factors”) (internal citations omitted); *American Med. Sys. v. Med. Eng. Corp.*, 6 F.3d 1523, 1530 (Fed. Cir. 1993); *Comark*, 156 F.3d at 1190; *Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1428 (Fed. Cir. 1988).

11 E.g., *Read Corp.*, 970 F.2d at 828. See *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185, at *12-13 (“Determination of willfulness ... may include contributions of several factors, as compiled, e.g., in *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1110 (Fed. Cir. 1986) and *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992)”).

12 *Rolls-Royce*, 800 F.2d at 1110; *Read Corp.*, 970 F.2d at 828; *Bott v. Four Star Corp.*, 807 F.2d 1567, 1572 (Fed. Cir. 1986).

13 See, Matthew D. Powers and Steven C. Carlson, *Article: The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 *Syracuse L. Rev.* 53, 29 (2001); see also *Comark*, 156 F.3d at 1190.

14 *Underwater Devices*, 717 F.2d at 1390.

15 See *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986) overruled in part by *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185; *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988) overruled in part by *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185.

cases put added pressure on defendants to get an opinion letter and waive the attorney-client privilege as to the subject matter of the opinion to support an advice of counsel defense to willful infringement.

In this state of law, willful infringement was virtually always asserted,¹⁶ at least for tactical discovery advantage. Patent holders tend to allege willfulness even when the patent issued or the defendant had notice a few days before, or concurrently with, the filing of the complaint.¹⁷ This of course is so because, first, there is no significant burden when pleading willfulness.¹⁸ Second, even if the plaintiff cannot meet its burden and prevail on willfulness, the allegation alone is likely to lead to otherwise unobtainable discovery.¹⁹ Further, at least one study has found that patent owners asserting willful infringement have succeeded in getting some enhancement of damages a significant portion of the time.²⁰ Statistical analysis of the Administrative Office of the United States Courts' data gathered from all patent cases tried from 1983 through 1999 has revealed that (a) 39% of the 888 decisions that found infringement included findings of willfulness and (b) enhanced damages were awarded in 70% of the 219 cases in which judges considered enhancement issues.²¹

III. A SUMMARY OF *KNORR-BREMSE*

In *Knorr-Bremse* the district court found that a brake manufacturer and its customer had engaged in willful infringement, in part explicitly because neither provided the trial court with an opinion regarding the patent and the resulting presumption that the opinions therefore were, or would have been, adverse to the defendants.²² The manufacturer of the infringing brakes had obtained a legal opinion, but declined to disclose it based upon its attorney-client privilege. The customer, had no legal opinion of its own, but relied upon the manufacturer's advice and indemnity.²³

In reversing the finding of willfulness, the Federal Circuit's opinion focuses solely on the continuing viability of its precedent directing an adverse presumptions if an accused willful infringer fails to produce a legal opinion at trial. First addressing the case of a party with an opinion, but which asserts the attorney-client privilege or work-product protection rather than producing it, the court holds that no presumption should be drawn from the assertion of the privilege.²⁴ The court notes that the defendant may waive the privilege and produce the opinion,²⁵ but does not discuss the consequences of its decision to do so or not do so. The court also explicitly refuses to opine about what future juries may be told regarding an undisclosed opinion as part of the totality of circumstances test, explicitly denying the request of several amici curiae that it do so.²⁶

Similarly, the court holds that a party's failure to obtain any legal opinion justifies no inference or presumption that, had the opinion been obtained, it would have been unfavorable.²⁷ Enigmatically, the court notes that the party nevertheless continues to have "an affirmative duty of due care to avoid infringement of the known patent rights of others,"²⁸ but says nothing as to whether this duty continues to usually include "the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity."²⁹

16 See *Sharper Image*, 2004 U.S. Dist. LEXIS 14796, at *47-48 and n. 27 ("allegations of willfulness have become almost a standard feature of complaints sounding in infringement"); see also David O. Taylor, *Wasting Resources: Reinventing the Scope of Waiver Resulting from the Advice-of-Counsel Defense to a Charge of Willful Patent Infringement*, 12 Tex. Intell. Prop. L.J. 319, 323 (Winter 2004).

17 See, e.g., *Advanced Cardiovascular Sys. v. Medtronic, Inc.*, 265 F.3d 1294, 1301 (Fed. Cir. 2001) (Plaintiff asserts (and prevails on) willfulness even though patent issued one month before filing of complaint); *Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478, 482 (Fed. Cir. 1985) (Plaintiff asserts and prevails on willfulness in suit filed nine days after patent issued).

18 See *Sharper Image*, 2004 U.S. Dist. LEXIS 14796, at *47-48.

19 See *id.* at *48; see also John F. Lynch, *Risky Business: Coping with a Charge of Willful Infringement*, Sedona Conference Journal, vol. IV, 31 (2003) (opining that there are clear tactical advantages to the patentee asserting willful infringement, regardless of success on the merits, such as discovery of otherwise unobtainable privileged materials, and almost no downside).

20 Kimberly A. Moore, *Article: Judges, Juries, and Patent Cases - An Empirical Peek Inside the Black Box*, 11 FED. CIR. B.J. 209 (2001).

21 *Id.* at 237, 241.

22 *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 133 F. Supp. 2d 843, 863 (E.D. Va. 2001), *rev'd*, *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185 (Fed. Cir. 2004).

23 *Id.* at 857-58 & n.20.

24 *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185, at *16-20.

25 *Id.* at *20.

26 *Id.* at *25.

27 *Id.* at *22.

28 *Id.*

29 *Underwater Devices*, 717 F.2d at 1390; see *supra* note 7.

Finally, the opinion considers and rejects that the existence of a substantial defense to infringement at trial itself is sufficient to “defeat liability for willful infringement even if no legal advice has been secured.”³⁰ Rather, the court holds, this factor continues to be just one of the matters a court can consider in the totality of circumstances.

Judge Dyk dissents in part from the court’s opinion to the extent it reaffirms an affirmative duty of a potential infringer, required to avoid willful infringement, to exercise due care to determine whether it is infringing.³¹ Most of Judge Dyk’s analysis focuses on his opinion that imposing such a duty violates governing Supreme Court law limiting, as a matter of due process, when punitive damages may be imposed, and that the duty of care is unsupported by statute, legislative history or precedent. Judge Dyk also argues, however, that the duty of care, even in the absence of the presumptions derogated by the court’s opinion, will continue to interfere with the ability of attorneys to candidly advise their clients regarding patent infringement issues, and continue to foster the “cottage industry of window-dressing legal opinions.”³² Finally, Judge Dyk notes that the court’s opinion leaves unexplained how the duty of care is intended to operate in the absence of a legal opinion:

But the majority opinion does not address whether a potential infringer can satisfy the requirement of due care without securing and disclosing an opinion of counsel, or, if such an opinion is not absolutely required, whether an adverse inference can be drawn from the accused infringer’s failure to obtain and disclose such an opinion.³³

IV. OBTAINING OPINIONS AND WAIVERS OF PRIVILEGE AFTER *KNORR-BREMSE*

A. The Need for Opinion Letters

The pre-*Knorr-Bremse* regime, as noted by one district court judge, all but forced an accused willful infringer to demonstrate it had obtained competent legal advice that its activities infringed no valid claim of the relevant patent.³⁴ Is this changed by the *Knorr-Bremse* decision eliminating any presumption as to the content of an undisclosed or never-obtained opinion, while unequivocally retaining at least the affirmative duty of due care to avoid infringement of patent rights, and perhaps also retaining the duty in most circumstances to seek and obtain competent legal advice from counsel? At least in the short run, until the courts resolve what is expected of accused willful infringers, the answer for most defendants is that little has changed.

Even if in time *Knorr-Bremse* is taken to mean that no explicit duty to obtain a legal opinion exists, the duty of care standard often will be difficult to meet without such an opinion. The “affirmative duty” test of *Underwater Devices*,³⁵ which often is framed in terms of what a “prudent person”³⁶ would do or a how “reasonable person would prudently conduct himself”³⁷ in order to conclude that no valid patent claim is infringed, is likely to often require such an opinion. As one district court noted, “for products or processes that involve some subtlety or complexity, it has become extremely difficult to” persuade a jury that an accused willful infringer discharged the “duty of due diligence without securing (and relying on in litigation) an independent legal opinion.”³⁸ This particularly is the case if the accused willful infringer is a business of significant size that obviously turns to lawyers for its legal determinations.³⁹ Thus, while some circumstances - such as a case like *Knorr-Bremse* lacking actual damages⁴⁰ - might justify a different conclusion, in most cases accused willful infringers will continue to want to have and rely on the same comprehensive exculpatory opinions obtained before *Knorr-Bremse*.

30 *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185, at *26.

31 *Id.* at *28-41.

32 *Id.* at *39.

33 *Id.* at *40.

34 *Johns Hopkins Univ. v. CellPro*, 160 F.R.D. 30, 34 (D. Del. 1995).

35 717 F.2d at 1389.

36 *E.g.*, *SRI Int'l*, 127 F.3d at 1465.

37 *E.g.*, *Minnesota Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992).

38 *Sharper Image*, 2004 U.S. Dist. LEXIS 14796, at *31.

39 *See, e.g.*, *Rolls-Royce*, 800 F.2d at 1110. (“Infringers should not escape a finding of willfulness by merely denying themselves counsel’s advice while relying on opinions of lay-employees”).

40 *See* 2004 U.S. App. LEXIS 19185, at *6.

One exception to this general rule is that *Knorr-Bremse* often will justify customers' decisions to rely upon assurance from suppliers that the supplier has the requisite opinion, particularly when, as is common,⁴¹ the supplier is indemnifying the customer for any infringement. Such a decision is well within the appropriate conduct of a prudent customer, particularly in circumstances in which the customer does not know, and cannot easily determine, relevant details of the allegedly infringing product.

Finally, the unanswered question raised by Judge Dyk, whether any inference may be drawn from the absence of evidence of an exculpatory opinion, remains an important one.⁴² So, too, is the question whether an inference will be drawn as a consequence of the absence of evidence that results from invocation of the privilege.⁴³ Presumably, the *Knorr-Bremse* opinion's insistence that no penalty should follow from the invocation of privilege will lead district court judges to preclude arguments by patent owners' lawyers asking that juries draw an adverse inference from the invocation of the privilege itself. Federal law, however, elsewhere sometimes makes the subtle distinction between disallowing an inference from the invocation of a privilege, but nevertheless allowing an inference to be drawn from a party's failure to provide the evidence protected by the privilege.⁴⁴

B. Waiver of Privilege and Work-Product Protection

For the same reasons that an accused willful infringer will continue to obtain opinion letters, an accused infringer often will be pressed to decide to waive attorney-client privilege and work-product protection so that it can use the opinion letters to demonstrate to the jury it obtained legal advice that its activities infringed no valid claim of the relevant patent. Potentially, a accused infringer instead might seek to preserve its privilege by informing the jury that it obtained a letter, but not disclosing the substance of the letter. Although invited to do so by amici curiae, the *Knorr-Bremse* court declined to provide guidance as to how the fact an opinion letter was obtained, without disclosing the substance of the letter, might be used in this matter.⁴⁵ Accused willful infringers therefore will continue to face the difficult choice whether use of its opinion letter is important enough to justify the resulting waiver of privilege.

Current law makes it impossible to predict the scope of waiver that will result from a decision to use an opinion letter. When an accused willful infringer asserts an advice of counsel defense to a claim of willful infringement, she generally "waives the attorney-client privilege as to all communications to and from counsel concerning the transaction for which counsel's advice was sought."⁴⁶ The basis for the breadth of the waiver is that "parties should not be able to manipulate the privilege so as to release only favorable information and withhold anything else."⁴⁷ So what are the boundaries of this waiver when defending against a willfulness charge? Is it limited as to subject matter? Does it cover only attorney-client communications? Does it extend to fact work product or opinion work product? Is the waiver limited to the time up until the opinion letter was generated? Are communications with trial counsel on the subject matter of the opinion from separate opinion counsel discoverable as well? Different district courts, different judges on the same court, and even the same judge in different cases have reached significantly different conclusions as to the resulting scope of waiver.

Federal district courts have divergent views on the scope of the waiver flowing from assertion of the advice of counsel defense. While the law seems consistent that the waiver extends at least to all pre-filing attorney-client communications on the specific subject matter (i.e. infringement or validity or unenforceability) of the opinion, precedent within and between districts varies on whether the waiver encompasses part or all of the attorney's work product. It also varies as to the temporal bounds of the waiver. In addition, there is no controlling precedent as to whether the waiver applies to opinion counsel only or stretches to reveal litigation counsel's advice and/or uncommunicated work product on the same subject matter.

41 See, e.g., Uniform Commercial Code Section 2-312(3).

42 See *supra* note 33 and accompanying text.

43 2004 U.S. App. LEXIS 19185, at *18-20.

44 See generally 26A Charles A. Wright & Kenneth W. Graham, Federal Practice and Procedure, Section 5752, 611-612 (1992).

45 See *supra* note 26 and accompanying text.

46 *Kelsey-Hayes Co. v. Motor Wheel Corp.*, 155 F.R.D. 170, 171 (W.D. Mich. 1991).

47 *Id.*

The narrower waiver as to only that which is communicated between at least opinion counsel and the client has been applied in several districts, including Delaware, Massachusetts, and the Western District of Michigan.⁴⁸ The waiver covers attorney-client communications, including work product to the extent it has been communicated to the client. The courts' bases for the narrow scope is that the alleged willful infringer's state of mind is paramount⁴⁹ and only that which is communicated to the client is probative of the client's state of mind. The rational and ruling articulated by the Delaware court in 1993 in the *Thorn EMI* case has become a primary example of this narrower scope, which is relied on and cited in other districts.

In *Thorn EMI*, the Delaware court refused to find waiver as to attorney work product uncommunicated to the client on the basis that "[t]he facts of consequence to the determination of a claim of willful infringement relate to the infringer's state of mind" and "[c]ounsel's mental impressions, conclusions, opinions or legal theories are not probative of that state of mind unless they have been communicated to that client."⁵⁰ The Court explicitly refused to follow broader waiver cases in other districts as well as precedent in the District of Delaware that provided for waiver of work product documents that related in any way to counsel's advice.⁵¹ This reasoning has been followed in Massachusetts and the Western District of Michigan.

Two years after *Thorn EMI*, the Massachusetts District court rendered a similar opinion in the *Micron* case, relying in part on the reasoning set forth in *Thorn EMI*, holding that the waiver of the attorney-client privilege and work product protection extends to all information regarding communications between the client and attorney.⁵² The court ordered only documents in the possession of the client to be turned over pursuant to the waiver.⁵³ Similarly, when evaluating the scope of the waiver in 1997, the Western District of Michigan court stated, relying on Federal Circuit precedent, that "it is clear that the infringer's intent, not that of counsel, is the relevant issue."⁵⁴ The court spelled out what communications and documents would be probative as to the accused willful infringer's state of mind - and to which the waiver therefore extends - including all communications between counsel and the client regarding the subject matter of the opinion, all documents in the client's possession that refer or relate to counsel's opinion, all documents in the client's possession that represent information relayed to counsel as a basis for her opinion, and all information provided by the client to counsel regarding the subject matter of the opinion.⁵⁵ The court noted that "the scope of the waiver is 'broad,' to the extent that it is necessary to shed complete light upon the alleged infringer's state of mind" but "narrow, as it pertains to the attorney's state of mind."⁵⁶ The Michigan court also found *Thorn EMI* persuasive and more consistent with Federal Circuit precedent, and rejected the broader waiver discussed in cases below.⁵⁷ It also apparently rejected the broader waiver ordered in the 1991 Western District of Michigan *Kelsey-Hayes* case.⁵⁸

The Northern District of Florida has applied a broader waiver, including waiver as to any evidence considered by the attorney who gave the opinion (i.e. all fact work product) - regardless of whether it was communicated to the client - but excluding waiver as to opinion work product not communicated to the client.⁵⁹ The court rejected the limitation on discovery of uncommunicated fact work product in cases like *Steelcase* on the basis that the accused willful infringer's subjective state of mind (i.e. whether reliance on advice of counsel was reasonable) is proven in part by objective evidence, and part of that evidence is the factual bases relied upon by counsel to form the opinion.⁶⁰ However, in line with the previously discussed cases like *Thorn EMI*, the court found that "[c]ounsel's

48 See, e.g., *Thorn EMI N. Am. v. Micron Tech.*, 837 F. Supp. 616, 620-22 (D. Del. 1993); *Micron Separations v. Pall Corp.*, 159 F.R.D. 361, 363-364 (D. Mass 1995); *Steelcase Inc. v. Haworth, Inc.*, 954 F. Supp. 1195, 1198-2000 (W.D. Mich. 1997).

49 See *Read Corp.*, 970 F.2d at 828 ("Willfulness is a determination as to a state of mind.").

50 *Thorn EMI*, 837 F. Supp. at 622.

51 *Id.* at 621 (stating that the earlier Delaware decision "may state too broadly the extent to which a contention of good faith reliance on the advice of counsel waives the privilege" and refusing to follow cases such as *Mushroom* and *FMT Corp.*, discussed *infra*).

52 *Micron Separations*, 159 F.R.D. at 362-64.

53 See *id.* at 363-64.

54 *Steelcase*, 954 F. Supp. at 1198 (referring to *Ortho Pharmaceutical Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992)).

55 *Id.* at 1198-1199.

56 *Id.* at 1199.

57 *Id.*

58 *Kelsey-Hayes*, 155 F.R.D. at 172 (ordering alleged infringer to produce documents or other materials used by or prepared by the alleged infringer's counsel "which refer to the [] opinion" and also "any other opinions which support, contradict or weaken the [] opinion, or other evidence which would go to [alleged infringer's] good faith reliance on the [] opinion must also be produced....").

59 See *D.Ö.T. Connectors v. J.B. Nottingham & Co.*, No 4:99cv311, 2001 U.S. Dist. LEXIS 739, *7-11 (N.D. Fla. Jan. 22, 2001).

60 *Id.* at *10-11.

mental impressions, conclusions, opinions, or legal theories are not probative of that state of mind [of defendant] unless they have been communicated to the client.”⁶¹

Still a broader waiver, including all opinion work product, has been applied in many district courts, including the Northern, Central and Eastern Districts of California, and interestingly, in the District of Delaware. Although these courts have varying rationales for permitting the discovery of opinion work product, the result in the end is the same - that it will virtually always be discoverable when an advice of counsel defense is set forth.

A commonly relied upon opinion for the broadest of waivers is the Mushroom case from the Northern District of California.⁶² The court’s determination that the waiver extends to opinion work product began by noting that under Federal Rule of Civil Procedure 26(b)(3), most work product will be discoverable upon a showing of substantial need and inability without undue hardship to obtain substantially equivalent materials.⁶³ The court reasoned that in a case where the accused willful infringer asserts an advice of counsel defense, counsel’s opinion work product is directly at issue. For example, the court notes, “knowing what the attorney thought about infringement bears directly on the defendants’ advice of counsel defense in this case.”⁶⁴ Therefore a substantial need exists for the work product so the discovering party can adequately challenge the advice of counsel defense.⁶⁵ Applying this rationale, the court acknowledges that in most cases, the party seeking discovery will be able to meet the standard imposed by Rule 26(b)(3).⁶⁶ Applying various rationale, other districts in California have applied similarly broad waivers.⁶⁷

Also applying a different rationale, and contrary to the narrow waiver in the 1993 *Thorn EMI* decision, there are recent broad waiver cases in the District of Delaware.⁶⁸ In 2002, in *Novartis*, the Delaware court discussed and distinguished the *Thorn EMI* precedent from subsequent District of Delaware precedent set by the *Mosel* decision, which *Novartis* followed.⁶⁹ The court noted that while the decisions are consistent on the scope of the waiver of attorney-client communications, they differ with respect to the scope of discovery of work product.⁷⁰ Both cases focus their analyses on the accused willful infringer’s state of mind but the courts differ in their conclusion as to what is probative of that state of mind.⁷¹ In *Mosel*, the court concluded that counsel’s work product is highly probative of the accused infringer’s state of mind because “[i]t would be irrational to assume that there could be no relationship between what counsel really thought (as reflected in [their] private papers)” and what counsel communicated to the client.⁷² Likewise, the *Novartis* court held that the advice of counsel defense means a waiver of all attorney-client communications and discovery of all work product related to the subject matter of counsel’s advice.⁷³

In addition to the uncertainty an accused infringer faces as to the discoverability of its opinion counsel’s work product, the district courts also have varying views on the temporal bounds of the waiver. For instance, under some opinions in the Northern District of California, an accused willful infringer not only faces the broadest of attorney-client communications and attorney work product, but also the broadest waiver as to time - the court imposes no temporal restrictions at all.⁷⁴ Likewise in the Eastern District of California, the *Chiron* court held that all communications, both

61 *Id.* at *11-12.

62 See *Mushroom Assoc. v. Monterey Mushrooms, Inc.*, No C-91-1092, 1992 U.S. Dist. LEXIS 19664 (N.D. Cal. May 19, 1992).

63 *Id.* at *13.

64 *Id.* at *14.

65 *Id.* at *13.

66 *Id.*

67 *Dunhall Pharms., Inc. v. Discus Dental, Inc. et al.*, 994 F. Supp. 1202, 1204-06 (C.D. Cal. 1998) (following the rationale underlying the broader waiver that “although the state of mind of the client is the issue, the basis and facts surrounding the advice provided by counsel are relevant in the process of investigating that state of mind” and holding that “waiver includes any evidence relating to the subject matter of the asserted defense, whether or not communicated to the defendants.”); *Chiron Corp. v. Genentech, Inc.*, 179 F. Supp.2d 1182, 1189-90 (E.D. Cal. 2001) (“Fairness requires that a party who seeks to be absolved of willful infringement because it relied on counsel’s advice pay the discovery price. The party asserting the defense waives attorney-client privilege and work product immunity to the broadest extent consonant with direct relevance to the advice of counsel itself.”).

68 See *Novartis Pharms. Corp. v. Eon Labs Mfg.*, 206 F.R.D. 396 (D. Del. 2002); *Mosel Vitelic Corp. v. Micron Tech., Inc.*, 162 F. Supp. 2d 307 (D. Del. 2000).

69 *Novartis*, 206 F.R.D. at 397-98.

70 *Id.* at 397.

71 *Id.*

72 *Id.* at 398; *Mosel*, 162 F. Supp. 2d. at 312.

73 *Novartis*, 206 F.R.D. at 398.

74 *Mushroom Assoc.*, 1992 U.S. Dist. LEXIS 19664, at *15-16 (ordering production of all documents without temporal limitation); *McCormick-Morgan, Inc. v. Teledyne Indus.*, 765 F. Supp. 611, 613-14 (N.D. Cal. 1991) (“is not appropriate thereafter for the waiving parties or judge to limit the waiver on a temporal basis”).

pre and post-filing of the complaint, are discoverable.⁷⁵ The *Chiron* court rejected cases limiting the waiver to pre-filing communications on the basis that “[t]hose cases presume that nothing that transpires during litigation should be pertinent to the client’s state of mind” when that “presumption is not in accord with the reality of litigation.”⁷⁶ The court also found support for this position in District of Delaware precedent that noted that facts regarding willful infringement might arise during the litigation itself.⁷⁷ Similarly, under *D.O.T.*, in the Northern District of Florida, even though uncommunicated opinion work product is not discoverable, an accused defendant must be prepared to accept that there are no temporal limitations as to the waiver of attorney-client communications or discovery of fact-based work product.⁷⁸

If an accused infringer finds herself sued in the Central District of California, although it seems likely that she faces discovery of her opinion counsel’s work product, the *Dunhall* court ruled that the discoverability of that work product ends as of the date the lawsuit is filed.⁷⁹ The *Dunhall* court based this limitation on a finding that post-filing, defense counsel is involved in trial strategy and preparation and analysis of the weaknesses of the client’s case, which is “fundamentally different from a similar pre-litigation analysis.”⁸⁰ Likewise, under *Micron*, in the District of Massachusetts, fortunate defendants face a more limited waiver not only as to that which is communicated between the attorney and client, but also as to the temporal limitation of the waiver, which ends as of the date the case is filed.⁸¹

Lastly, and most importantly for client-litigation counsel communication considerations, whether or not the waiver extends to communications with and documents of litigation counsel in addition to opinion counsel also is uncertain. Many cases permit broad discovery including trial counsel’s documents, even where trial counsel is a different law firm. The only hope for limitations on that discovery, and only in some district courts, appears to be temporal or when trial counsel’s opinion work product does not contradict the opinions of opinion counsel.

If an accused willful infringer is likely to be or is sued in the Northern District of California, the Northern District of Florida, or the District of Oregon, she should be aware that the waiver likely will be broad and include her trial counsel’s materials. The often cited *Mushroom* case in the Northern District of California held as to the waiver of the attorney client privilege that “[t]he deliberate injection of the advice of counsel into a case waives the attorney-client privilege as to communications and documents relating to the advice” and that “the defendants have waived the attorney-client privilege with respect to *all documents* pertaining to the infringement of the [] patent” without expressly limiting the materials as to the source.⁸² In addition, with respect to work product, the court held that “[b]y asserting the advice of counsel defense, the defendants have waived their attorney work product immunity. All documents containing work product relevant to the infringement issue must be produced” without mentioning any limitation as to source.⁸³ The failure to expressly limit the broad waiver as to source might lead to the conservative conclusion that there is no limitation, and other districts have used *Mushroom* to conclude just that.

In the *D.O.T.* case, the Florida district court followed the reasoning and rulings of *Mushroom* to extend the waiver to opinions on the subject matter of the opinion letter of any other counsel, including trial counsel, which were communicated to the defendant.⁸⁴ The only limitation then is communication with the client. However, adding to the uncertainty, other courts have examined *Mushroom* and come to a different conclusion with respect to the absence of an express statement that all trial counsel’s documents are subject to the waiver.

75 *Chiron*, 179 F. Supp. 2d at 1188 and n.4 (rejecting the Central District’s temporal limitation in *Dunhall*).

76 *Id.* at 1188 n.4 (rejecting the Central District’s temporal limitation in *Dunhall*).

77 *Id.* at 1188 (citing the *Mosel* decision at p. 314).

78 *D.O.T.*, 2001 U.S. Dist. LEXIS 739, at *9-10 and n.4.

79 *Dunhall*, 994 F. Supp. at 1205-06.

80 *Id.* at 1206.

81 *Micron*, 159 F.R.D. at 364.

82 *Mushroom Assoc.*, 1992 U.S. Dist. LEXIS 19664, at *9-12 (emphasis added).

83 *Id.* at *14-15 (emphasis added).

84 *D.O.T.*, 2001 U.S. Dist. LEXIS 739, at *7 (“The waiver extends to *opinions* of any other counsel, including trial counsel, which also addressed the *subject matter* in the [opinion counsel’s] opinion and which were communicated to D.O.T.”) (emphasis in original).

In the *Micron* case in the District of Massachusetts, the court recognized that *Mushroom* could be read to include waiver as to all of trial counsel's opinion work product, but noted that it was not clear.⁸⁵ As discussed previously, *Micron* is a case where the waiver is only as broad as that which is communicated to the client, and also ends with the filing of the suit. As to trial counsel's opinion work product, the court found that the waiver extends to any of present trial counsel's documents communicated to the client before trial that contain "potentially damaging information" or express "grave reservations" with regard to the opinion letter.⁸⁶ But the court declined to require disclosure of trial counsel's opinion work product communicated to the client where those mental impressions, conclusions or legal theories were "consistent with the opinion letter and do not, in any respect, contradict the opinion letter or recite facts which cast doubt on the opinion letter and/or the bases of the opinions contained in the opinion letter."⁸⁷

The District of Oregon in the *Haney* case imposed a broad waiver similar to that of *Mushroom* and *D.O.T.*⁸⁸ Whether it had bearing on the court's conclusion or not, in moving to compel documents in trial counsel's possession, the Plaintiff pointed out, and the court noted, that document logs showed that defendant's trial counsel had sent documents to opinion counsel concerning infringement and validity.⁸⁹ The court concluded that the defendant "must produce not only the opinion letters of counsel 'but also all other attorney communications on the same subject matter and all documents relied upon or considered by counsel at the time and in conjunction with rendering that opinion'" including "documents in the possession of the [trial counsel's] firm that deal with this same subject."⁹⁰

Although the *Chiron* case in the Eastern District of California, which applies the broadest waiver as to scope and time, drew a line when it came to disclosure of present litigation counsel communications,⁹¹ it appears from the court's opinion that this limitation was only imposed because it was one expressly agreed to by the parties.⁹² Otherwise, the court's opinion seems to indicate that it would have imposed a broader waiver permitting access to documents "even if prepared by trial counsel after suit was commenced."⁹³ The Northern District of Illinois case cited for this proposition by the *Chiron* court permitted the discovery of all documents in trial counsel's files that contradicted or "cast doubt" on the opinions relied upon regardless of whether there was evidence that those documents were communicated to the client.⁹⁴ It did so on the basis that "[t]he practical reality is that if negative information was important enough to reduce to a memorandum, there is a reasonable possibility that the information was conveyed in some form or fashion to the client."⁹⁵

Although some cases limit the waiver of trial counsel's opinion work product after the filing of the lawsuit and only if those opinions "cast doubt" on the opinion rendered by trial counsel, accused infringers and their trial counsel must be weary of communicating on the subject matter of the opinions of opinion counsel as it is almost certain any such communications will be discoverable by the patentee. In light of numerous rulings where the waiver extends to attorney-client privilege communications and work product documents (regardless of whether they were communicated to the client), both prior to and after the filing of a lawsuit, and as to both opinion and litigation counsel's advice, and because of the lack of any binding precedent limiting the waiver, clients and attorneys must be prepared for the broadest waiver possibilities.

There is no reason to believe district courts will become any more consistent regarding their waiver decisions in light of *Knorr-Bremse*. There, however, is reason to believe that more often broad waivers will be found. That is because, as at least one court noted, in the past judges have narrowed

85 *Micron*, 159 F.R.D. at 364-65.

86 *Id.* at 365.

87 *Id.*

88 *Haney v. Timesavers, Inc.*, Nos. 93-151, 92-270, 93-703 and 94-804, 1995 U.S. Dist. LEXIS 15222, at *7-9 (D. Or. Oct. 11, 1995).

89 *Id.* at *8.

90 *Id.* at *9 (quoting *FMT Corp. v. Nisei ASB Co.*, 24 U.S.P.Q.2d 1073, 1075 (N.D. Ga. 1992)).

91 *Chiron*, 179 F. Supp. at 1187 ("Genentech must produce attorney-client communications pertinent to any counsel (except litigation counsel of record) involved in setting forth a communication expressly indicating [] an opinion or conclusion on the on the subject matter of the [] patents.").

92 *Id.* at 1188.

93 *Id.* (quoting *Beneficial Franchise Co. v. Bank One, N.A.*, 205 F.R.D. 212, 218 (N.D. Ill. 2001)).

94 *Beneficial Franchise*, 205 F.R.D. at 218; but see *Thermos Co. v. Starbucks Corp.*, 1998 U.S. Dist. LEXIS 17753, at *14 (N.D. Ill. Nov. 3, 1998) (ordered disclosure only of communicated work product of trial counsel that contradicted or cast doubt on opinion letter).

95 *Beneficial Franchise*, 205 F.R.D. at 218.

the scope of waiver in a belief that fairness required a narrower waiver because of the compulsive nature of the pre- *Knorr-Bremse* presumption that applied in the absence of waiver (the presumption that the opinion was adverse to the accused willful infringer).⁹⁶ To the extent that waivers now appear more “voluntary” in nature, judges presumably will apply privilege waiver law more mechanically, with the result that broader waivers often will be found. Ultimately - assuming the issue is one as to which a single-rule of law is appropriate for all patent cases⁹⁷ - this issue likely will be resolved by a decision of the Federal Circuit, but for the foreseeable future, attorneys and their clients will have to plan in light of the diversity of district courts’ views on the scope of waiver.

C. Potential Procedural Solutions to Waiver Issues

As district court judges and litigants repeatedly encounter the difficulties of a waiver of privilege potentially impacting communications even with litigation counsel, they have sought to find procedural solutions to at least ameliorate the resulting difficulties. Two predominate: delaying disclosure of any opinion letter and the resulting waiver, and bifurcation of the willfulness issue.

The first of these solutions - delaying the time during the litigation when an accused willful infringer is required to elect to waive privilege or be foreclosed from using its opinion letter - has become relatively standard practice, at least in some districts.⁹⁸

The second solution - bifurcation - is more difficult to obtain. In theory, bifurcation resolves many of the problems that would result from requiring disclosure of attorney opinions or work product. Issues of infringement and validity - the issues that would be encompassed by any opinion letter - are separately tried, prior to any discovery of privileged material. If the patent owner wins the first trial, it then is allowed to discover the privileged and work-product material related to any opinion letters, and following a reasonable period for that discovery, trial on the willfulness and, usually, damages issues is held.

In *Fromson*, the Federal Circuit in dicta agreed that a separate trial on willfulness, “e.g., as part of a separate trial on damages” might be a useful approach “in meeting the attorney-client privilege problem.”⁹⁹ A few years later in the *Quantum* case, the Court noted that “[p]roper resolution of the dilemma of an accused infringer who must choose between the lawful assertion of the attorney-client privilege and avoidance of a willfulness finding if infringement is found, is of great importance not only to the parties but to the fundamental values sought to be preserved by the attorney-client privilege.”¹⁰⁰ The Federal Circuit urged: “[t]rial courts ... should give serious consideration to a separate trial on willfulness whenever the particular attorney-client communications, once inspected by the court *in camera*, reveal that the defendant is indeed confronted with this dilemma.”¹⁰¹ The District of Delaware in the *Novartis* case also suggested that a future solution to the waiver problem might be “separating the issues of willfulness and damages from other patent issues.”¹⁰² However, this proposed solution is not one without difficulties, and seldom is used.

“[F]or patent cases already plagued by need for a separate *Markman* hearing to settle claim construction, the added complications and burdens of a further bifurcated trial ... hardly seems an efficient or universal solution.”¹⁰³ Many district courts have refused to bifurcate the issues of willfulness and damages on various bases such as bifurcation would not be efficient, would complicate the trial on other matters, would cause needless delay and duplication of effort, and would require

96 *Sharper Image*, 2004 U.S. Dist. LEXIS 14796, at *32 (“Because the waivers with which the law is generally most comfortable are truly voluntary, and because substantive patent law has evolved in a direction that injects a substantial element of involuntariness into waivers in the setting we address here, courts should be careful not to define the scope of these waivers more broadly than is justified by the fairness objectives on which waiver doctrine is supposed to turn”).

97 Federal Circuit precedent governs if the scope of privilege waiver is an issue that “is affected by the special circumstances of the patent law setting in which those issues arise.” See, e.g., *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359-60 (Fed. Cir. 1999).

98 E.g., N.D. Cal. Patent L.R. 3-8 (2000) (“Not later than 50 days after service by the Court of its Claim Construction Ruling, each party opposing a claim of patent infringement that will rely on an opinion of counsel as part of a defense to a claim of willful infringement shall: (a) Produce or make available for inspection and copying the opinion(s) and any other documents relating to the opinion(s) as to which that party agrees the attorney-client or work product protection has been waived”).

99 *Fromson*, 853 F.2d at 1572, overruled in part on other matters by *Knorr-Bremse*, 2004 U.S. App. LEXIS 19185.

100 *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643-44 (Fed. Cir. 1991).

101 *Id.*

102 *Novartis*, 206 F.R.D. at 398 n.2.

103 Lynch, *supra* note 19, at 45.

additional time and expense.¹⁰⁴ Moreover, separating the trial on liability from the trial on damages often is not practical and creates duplication of effort as evidence on liability and damages overlaps.¹⁰⁵ Bifurcation provides further complications if trial courts or parties attempt to secure the same jury for both trials.¹⁰⁶

V. ADVISING CLIENTS IN LIGHT OF *KNORR-BREMSE*

If legal advice continues to be an important part of satisfying the obligation of due care, how has *Knorr-Bremse* changed how clients should obtain, and attorneys should provide, legal that legal advice? Probably, not very much. It will continue to be important that counsel in every role remain diligently so that a future privilege and work-product waiver of unexpected scope does not result in evidence harmful to the client.

Communications with, and the work product of, opinion counsel's firm (including litigation counsel's work product, if she and opinion counsel are in the same firm¹⁰⁷) must be presumed to be discoverable. This of course includes not only the ultimate opinion rendered, but all interim and subsequent communications and work product. And - despite the sometimes cynical view that oral communications cannot be effectively discovered in light of "faulty memory" - clients need to understand that all communications, oral and written (including, of course, informal email) are equally subject to scrutiny by opposing counsel. Often this means that the client will need legal advice about its communications to assure that only appropriate material is sent by the client. Indeed, some communications, such as the factual or technical predicate for the opinion, are best drafted by the client's general or litigation counsel. Similarly, communications within the client organization about the opinion, as well as other communications with opinion counsel, must be prepared with the expectation of discoverability, and should be overseen by counsel. So, too, must general and litigation counsel keep in mind that their communications with opinion counsel also are likely to be discoverable.¹⁰⁸

Litigation counsel likely will have to communicate with opinion counsel. For example, as trial events - such as a claim construction - call into question the validity of opinions expressed by opinion counsel, updates should be obtained.¹⁰⁹ Communications to opinion counsel about these litigation events, and requesting review of prior opinions in light of them, are not only likely discoverable, but also can be construed by a fact finder as imposing on the independence of opinion counsel. Letters and email, crafted for jury exhibition, are therefore usually the preferred means of communication.

One particular problem that resulted from the *Underwater Devices* duty of care and the accompanying presumption, in the absence of disclosure of an exculpatory opinion, that any opinion was contrary to the infringer's desired actions, has been that opinion counsel believe they are unable to provide genuine legal advice. Instead, the usual practice is for opinion counsel to provide "window-dressing legal opinions"¹¹⁰ unequivocally finding no valid claim of the relevant patent infringed. This is not because of any legal constraint; the Federal Circuit has declared more equivocal, genuine

104 See Donald S. Chisum, Chisum on Parents, Section 20.03 [4][b][v][J], Matthew Bender (2000) and ar fn. 334.

105 See Powers, *supra* note 2, at 95; see also *Sharper Image*, 2004 U.S. Dist. LEXIS 14796, at *51 n. 29 ("Bifurcation ... often is perceived as impractical").

106 *Id.*

107 See, e.g., *Novartis*, 206 F.R.D. at 398-99 (concluding that "everything with respect to the subject matter of counsel's advice is discoverable" and compelling defendant to produce all documents from opinion and trial counsels' law firm relating to the subject matter of the opinion).

108 E.g., *D.O.T.*, 1995 U.S. Dist. LEXIS 15222.

109 *Pall Corp.*, 66 F.3d at 1221-22; *Polaroid Corp. v. Eastman Kodak Co.*, No. 76-1634, 1990 U.S. Dist. LEXIS 17968, *236 (D. Mass. Oct. 12, 1990) (citing to *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983)).

110 *Supra*, note 32. See also *Novartis*, 206 F.R.D. at 399 (commenting that "legal gamesmanship [is] creeping into the practice of rendering infringement and validity opinions."); *Mosel*, 162 F. Supp. 2d at 312 ("because both attorney and client know why the advice of counsel is being sought, their relationship has the potential to be premised upon the understanding (whether explicit or implicit) that only favorable information should be disclosed"); *Johns Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342, 1348 (Fed. Cir. 1998) (facts show opinion letters were obtained and used to induce investment in the defendant company, and Court found facts showing many shortcomings in analysis of the patents and prior art could allow reasonable jury to conclude the letter could not instill reasonable confidence that defendant did not infringe valid patents); Lynch, *supra* note 19, at 31-46, 37 ("attorney opinions addressing potential patent liability are now fashioned not as balanced analyses of the likely infringement exposure, but as future court exhibits intended to be displayed before a jury."); D. Bartel, *Article: Drawing Negative Inferences upon a Claim of the Attorney-Client Privilege*, 60 Brooklyn L. Rev. 1355, 1410 (Winter, 1995) (opining that clients aware that being frank with their attorneys could be used to their detriment if pressured to waive privilege as to any legal opinion on non-infringement and invalidity are likely to withhold unfavorable information from their attorney and even fabricate or shade facts).

opinions preferable.¹¹¹ But, candor usually is sacrificed in order to produce the most effective possible jury exhibit demonstrating the client's good faith basis for believing no infringement would occur. As a consequence, clients do not learn from opinion counsel what their actual legal risk might be.

Providing genuine legal advice to a client that desires to know that actual risk is not easy. Because of the likely waiver of privilege, opinion counsel, who presumably is in an ideal position to evaluate the real infringement and validity situation, cannot ever write or communicate any opinion that is not intended to be discovered in litigation. While advice from the client's in-house, general or litigation counsel might escape as automatic a discovery order requiring disclosure, in many courts any advice from *any* counsel on the same subject - broadly defined as infringement or validity - as opinion counsel's opinion will have to be disclosed once privilege is waived.¹¹²

One unwise, but nevertheless often tried, solution to this dilemma is for litigation counsel to provide solely *oral* advice. Against an effective adversary, however, this may only result in requiring oral testimony from litigation counsel about the advice - resulting not only in a prejudicial disclosure of the candid advice, but also possible disqualification of counsel and her firm.¹¹³

Potentially, more useful litigation - and other - counsel could communicate with the client solely about likely litigation outcomes. In a carefully conducted conversation, counsel explains to the client that opinion counsel has provided an opinion about governing law, and litigation counsel will not duplicate or contradict any part of that opinion. Instead litigation counsel will explain the strength and weaknesses of various litigation positions (including prevailing on proof that the patent is not infringed or is invalid). The position that such advice does not constitute a discoverable opinion, but instead non-discoverable work product, is supported by Federal Circuit precedent.

VI. CONCLUSION

Knorr-Bremse is a first step in correcting the several problems that have plagued attorney-client communications with accused willful infringers, but a wholly inadequate one. Potentially accused infringers must still assume that they someday will be required to prove due care to avoid infringement under a vague totality-of-the-circumstances test. Specially prepared, one-sided legal opinions continue to be an important and compelling element of such a showing. As a result, in light of the district courts' varying and sometimes very broad rules of privilege waiver, potential infringers likely will continue to obtain legal advice focused on jury impact rather than informing clients of genuine legal risks.

111 *Read Corp.*, 970 F.2d at 829 n.9 ("An opinion of counsel, of course, need not unequivocally state that the client will not be held liable for infringement. An honest opinion is more likely to speak of probabilities than certainties. A good test that the advice given is genuine and not merely self-serving is whether the asserted defenses are backed up with viable proof during trial which raises substantial questions").

112 *See, e.g., D.O.T.*, 2001 U.S. Dist. LEXIS, at *4, ("The waiver is a subject matter waiver which applies to all lawyers who provided opinions to the defendant concerning the defense to a claim of willful infringement" including trial counsel.)

113 *See, e.g., Reynolds v. Super. Ct. (Siders)*, 177 Cal. App. 3d 1021, 1026 (Cal. App. 1st Dist. 1986); Delaware Lawyer's Rule of Profession Conduct 3.7(a); Texas Disciplinary Rule of Professional Conduct 3.08.

114 *See Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1352 (Fed. Cir. 2001) ("defenses prepared for a trial are not equivalent to the competent legal opinion of non-infringement or invalidity which qualify as 'due care' before undertaking any potentially infringing activity."); *see also Dunhall*, 994 F. Supp. at 1206 (imposing temporal limitation on waiver to protect trial preparation and strategy noting that "critical trial preparation" including "analysis of the weaknesses of their client's case" although "related to the subject matter of the asserted [advice of counsel] defense, is fundamentally different from a similar pre-litigation analysis.")

WAR: THE MOTHER OF ALL MASS TORTS?

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The military theorist Karl von Clausewitz (1780-1831) famously described war as "... *nothing but a continuation of politics with the admixture of other means*".

No-one, to my knowledge, has famously referred to war as a form of mass tort. Armed conflict is rarely the direct subject of civil litigation in national courts. Lawyers generally only get busy when things have blown up by accident. Yet, there is no shortage of armed hostilities in the world today: between 1993 and 1994 alone, 50 separate "*ethno-political*" conflicts were recorded as occurring around the globe.¹

So what is the legal context of war and might litigation one day become a continuation of warfare by other means?

This paper first examines briefly the latterday history of the legality of warfare and then focuses on how the Iraq conflict has placed this issue at the heart of global politics. Secondly, it reviews some impediments that have tended to keep the incidence and consequences of war out of both international and national courts. Lastly, it attempts to identify where the compass may be pointing for the future of adjudicating the legality of war on the international plane and also for litigating the results of armed conflicts as a form of civil wrong in private suits.

I. AN ABRIDGED HISTORY OF THE LEGALITY OF WAR

The concept of "*just war*" has long antecedents. The notion of legal or illegal war is a much newer one. Until recently the subject was one which had exercised only a handful of academics and diplomats. That is until the UN Security Council refused to sanction the "*use of all necessary means*" to evict Saddam from Baghdad - or, did it effectively refuse? And, if so, did that refusal make the Iraq war illegal?

Into the 19th Century the acquisition of territory by conquest continued to be recognised as "fair game" in international geo-politics.

In 1890, the International Conference of American States in Washington adopted a recommendation to establish a principle that cessions of territory brought about by the threat or use of force should be void.

This belated reaction to colonialism (or perhaps, more accurately imperialism, as this was not the initiative of Native Americans) fell on stony ground until the great upheavals of the two world wars in the next Century.

In 1928 the General Treaty for the Renunciation of war (known as the Kellogg Briand Pact) attracted several State adherents in the League of Nations who were concerned at least to establish some common rules of engagement.

¹ Ted Robert Gurr "Peoples against State: ethno-political conflict and the changing world system" *International Studies Quarterly* (September 1994) p.347.

It took Franklin Roosevelt and Winston Churchill meeting onboard U.S.S. Augusta, anchored off Newfoundland in August 1941, to establish the principles eventually enshrined in the UN Charter on 26 June 1945, which frame the limits of lawful warfare.

It is this regime which their successors George Bush and Tony Blair now find unduly restrictive when confronted with the modern threats of terrorism and ethno-political strife.

II. THE SCHEME FOR LAWFUL WAR UNDER THE UN CHARTER

“All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any State.”²

This has been called the cornerstone of the UN Charter. The legality of warfare in International Law substantially resides in the exceptions to that rule either expressed within the framework of the Charter or, more controversially, within the residual realm of Customary International Law. And, as we shall see, Customary International Law, unlike the elephant, lends itself more readily to definition than recognition.

The clearest exception to the illegality of war is the Security Council’s authorisation of the use of force under the mechanisms of Chapter VII of the UN Charter.

After nearly 50 years of Cold War stasis, in which the likely vetos of the Eastern and Western blocs had stymied the use of these powers, they were first exercised on 29 November 1990 when Resolution 678 authorised Member States to “*use all necessary means*” to evict Iraq from Kuwait and restore peace and security in the area.

Since then, Chapter VII powers have been relied upon to authorise measures in Somalia, Liberia, the Balkans, Sierra Leone and Haiti.³

The questions of:

- (i) whether the authorisation of the use of force in Resolution 678 could “revive” in the event of Iraq’s disobedience of the ceasefire conditions imposed in Resolution 687 (which suspended the authority to use force); and
- (ii) whether individual States could determine that the authority had revived independently of the Security Council,

are the ones that have currently embroiled the Attorney General in the midst of controversy in the UK.

The issue that has received more airplay in the United States is the limits of the second main exception to the illegality of war. This is to be found in Article 51 which recognises the “*inherent right*” of States to use force singly or collectively as a means of self-defence in response to an “*armed attack*”.

On 12 September 2001 George Bush’s visceral response to the tragic events of the previous day captured the mood of the moment when he said, “*I don’t care what the International Lawyer says, we are going to kick some ass ...*”

For the war on Afghanistan he had a ready justification under the guise of self-defence as the “*substantial involvement*” of the Taliban government in the actions of an “*armed ... band*” of Saudi nationals carrying carpet knives in the attacks of 9/11 qualified as an attack to which America had the right to respond.⁴

² (Article 2(4) UN Charter).

³ Philippe Sands, “Lawless World”, Penguin Books, 2005.

⁴ See Article 3(g) of the Definition of Aggression annexed to General Assembly Resolution 3314(XXIX).

With time for reflection, when Bush turned his attention to Iraq, he said in June 2002, “*The United States has long maintained the option of pre-emptive actions to counter a sufficient threat to our National Security ...*”. In an appeal to common sense he added, “*In an age where the enemies of civilisation openly and actively seek the world’s most destructive technologies, the United States cannot remain idle while dangers gather.*”

It seems to have taken Tony Blair to deflect Bush from his instinct to head up the path of anticipatory self-defence and lead him up the cul-de-sac of seeking the sanction of the “*cheese eating surrender monkeys*” on the UN Security Council.

The barrister Blair conceded early on that Iraq posed an insufficiently immediate threat to invoke self-defence.⁵ He was thus ultimately forced to nail his colours exclusively to the mast of the dubious theory that the US and the UK could unilaterally conclude that the UN authorisation to use force to evict Iraq from Kuwait had “*revived*” to allow the invasion of Baghdad.

The seeds of justification for Bush’s doctrine in International Law may have been more fertile. There is a double irony in this. First, the traditional outer limit in Customary International Law for pre-emptive self-defence was set by America protesting that the UK had gone too far in using self-defence as a justification for seizing and destroying a vessel (the “*Caroline*”) in US waters in 1837. Secondly, the clearest confirmation that a Customary International Law justification of self-defence (and therefore one capable of evolving to meet the threats of the modern world) survives the codification of Article 51, came from the International Court of Justice in the merits phase of the Nicaragua case. The US refused to participate in the case after the ICJ had the temerity to conclude that it had jurisdiction to rule on the legality of the Reagan regime mining Nicaraguan ports.⁶

III. THE INHERENT RIGHT (“DROIT NATUREL”) OF SELF-DEFENCE IN CUSTOMARY INTERNATIONAL LAW

As already observed, Customary International Law may be easier to define than to identify - so what is it, and why is its identification difficult?

The International Law Association adopted in 2000 the London Principles on Formation of Customary (General) International Law. These contain the following definition:

“[A] rule of customary International Law is one which is created and sustained by the constant and uniform practice of States ... in or impinging upon their international legal relations, in circumstances which give rise to a legitimate expectation of similar conduct in the future.

If a sufficiently extensive and representative number of States participate in such practice in a consistent manner, the resulting rule is one of “general customary International Law” subject to [persistent denial by a State] such a rule is binding on all States.”⁷

The definition only has to be stated to imagine the difficulties of identifying and recognising a rule of International Law at the cutting edges of its emergence and evolution. The sources of such rules are vague, and not always readily accessible. Article 38 of the Statute of the International Court of Justice defines them as ...

- “(b) international custom, as evidence of a general practice accepted as law;
- (c) the general principles of law recognised by civilised nations; and

⁵ According to Philippe Sands (op cit) Blair said this on 8 March 2003 on MTV - of all places.

⁶ *Nicaragua v. USA ICJ Reports* (1986) 100-1 (para 190).

⁷ London Principles on formation of Customary (General) International Law.

- (d) [without stare decisis as a principle]... judicial decisions and the teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law.”

It is a recipe for subjectivity and a “*bean feast*” for lawyers.

International Treaties may or may not codify or help to “*crystallise*” Customary International Law or may just be factors used to evidence a uniform practice accompanied by the necessary belief of a State that the practice is ordained by International Law (*opinio juris*).

In this context the question has arisen whether the UN Charter effectively subsumed and “*froze frame*” on the limits of the right to self-defence by codifying Customary International Law on the subject.

This very question arose in the case of *Nicaragua v. USA*.

In a further irony, the USA argued unsuccessfully to the Court in the hearing on jurisdiction that:

“the provisions of the UN Charter [relevant to the use of force and self-defence] subsume and supervene related principles of customary and general International Law”. The United States concludes that, “since the multi-lateral treaty reservation [excluding the jurisdiction of the ICJ for the relevant purposes] bars adjudication of claims based on those treaties, it bars all of Nicaragua’s claims. Thus the effect of the reservation in question is not, it is said, merely to prevent the Court from deciding upon Nicaragua’s claims by applying the multilateral treaties in question; it further prevents it from applying in its decision any rule of customary International Law the content of which is also subject of a provision in those multi-lateral treaties.”

The Court rejected this line of argument by the USA holding in its judgment on jurisdiction that:

“Principles such as those of the non-use of force, non intervention, respect for the independence and territorial integrity of States ... continue to be binding as part of customary International Law, despite the operation of provisions of conventional law in which they have been incorporated.”

So intent had been the USA’s lawyers on escaping the jurisdiction of the ICJ that they had to place themselves in the strait-jacket (from which President Bush now seeks to escape) of effectively agreeing with Nicaragua that the UN Charter froze the limits of the right to self-defence, asserting that “*Article 2(4) of the Charter is customary and general International Law*”.

The Court did not buy that argument either, saying:

“As regards the suggestion that the two sources of law are identical, the Court observes that the United Nations Charter, ... by no means covers the whole area of the regulation of the use of force in international relations. On one essential point, the treaty itself refers to pre-existing customary International Law; this reference to customary law is contained in the actual text of Article 51, which mentions the inherent right (in the French text “*droit naturel*”) of individual or collective self-defence, which “nothing in the present Charter shall impair” and which applies in the event of an armed attack. The Court therefore finds that Article 51 of the Charter is only meaningful on the basis that there is a “natural” or “inherent” right of self-defence, and it is hard to see how this can be other than of a customary nature, even if its present content has been confirmed and influenced by the Charter. Moreover the Charter, having itself recognised the existence of this right, does not go on to regulate directly all aspects of its content. For example it does not contain any specific rule whereby self-defence

would warrant only measures which are proportional to the armed attack and necessary to respond to it, a rule well established in customary International Law. Moreover a definition of the “armed attack” which, if found to exist authorises the exercise of the “inherent right” of self-defence, is not provided in the Charter and is not part of treaty law. It cannot therefore be held that Article 51 is a provision which “subsumes and supervenes” customary International Law. It rather demonstrates that in the field in question, the importance of which for the present dispute need hardly be stressed, customary International Law continues to exist alongside treaty law.”

This statement by the ICJ sounds remarkably like the portal by which the “Bush doctrine” of pre-emptive self-defence might enter into a field of wider respectability in International Law. The Court on that occasion left open the door for pre-emptive self-defence saying: “*the issue of the lawfulness of a response to the imminent threat of an armed attack has not been raised. Accordingly the Court expresses no view on that issue.*”

The Court even gave what reads like a prescient advance blessing to the Afghan war and the “*War on Terror*” saying:

“... it may be considered and agreed that an armed attack must be understood as including not merely action by regular armed forces across an international border, but also “the sending by or on behalf of a State of armed bands, groups, irregulars or mercenaries, which carry out acts of armed force against another State of such gravity as to amount to” *inter alia* an actual armed attack conducted by regular forces “or [the State’s] substantial involvement therein.”

IV. THE IMPEDIMENTS TO WAR BEING SUBJECT TO LITIGATION IN INTERNATIONAL COURTS

All in all it is supremely ironic that the ICJ’s assumption of jurisdiction in the Nicaragua case was the occasion for Uncle Sam to throw his toys out of the pram in 1984 and withdraw from the compulsory jurisdiction of the Court. Eric Posner, writing in the New York Times in January this year, called this the “*watershed moment*” in the decline of the influence and importance of the ICJ in international relations.

The United States thus closed the door on the ICJ being a possible forum for it to move forward modern Customary International Law on anticipatory self-defence. This apparently remains at the point at which the USA is traditionally regarded as having defined it in 1842. In that year the US Secretary of State, Daniel Webster, castigated the British government for destroying the “*Caroline*” en route in American waters to provision an armed rebellion in Canada. He challenged the Brits to demonstrate,

“necessity of self-defence, instant, overwhelming, leaving no choice of means, and no moment for deliberation ...”

Those words enshrine what has become known as the “*Caroline Principle*” of pre-emptive self-defence. They fall some distance short of the Bush doctrine, but as the eminent international lawyer Professor Ian Brownlie has observed: “[T]he reference to the period 1838 to 1842 as the critical date for the customary International Law said to be behind the United Nations Charter, drafted in 1945, is anachronistic and indefensible.”⁸ He, however, advocates that the anachronism should be removed in favour of an even less flexible doctrine than the Caroline Principle to reflect his view that, by 1945, the only visible precedent for pre-emptive self-defence was Austria-Hungary’s attack on Serbia in 1914, which provoked World War I. Clearly he discounted Hitler’s excuses for the invasion of Poland. Reference to that more proximate precedent to 1945 might have cheapened his point.

8 Brownlie Principles of Public International Law, 6th Edition, Oxford University Press, 2003 p.702.

The logic of the ICJ's decision in the Nicaragua case implies, however, that there is no reason to freeze frame in 1939 or 1945 on the status of Customary International Law, as in principle it can evolve to meet changing threats. If armed conflict can embrace Saudis with carpet knives using civilian aircraft as weapons, it ought also to be able to embrace a hacker disabling the Global Positioning System which the USA apparently controls. By parity of reasoning, the provisions aboard the *Caroline* are no different from a factory manufacturing the precursors for Nerve Gas.

What is lacking at present is a forum in which any such evolution of Customary International Law can be developed and recognised. A striking illustration of both how the UN failed as a forum to develop International Law and the ICJ failed as a forum to assess it is provided by the example of Kosovo.

On 24 March 1999 (by chance the day the British House of Lords ruled for the second time that Pinochet was not immune from prosecution) NATO began bombing targets in Yugoslavia, without UN sanction, where the Russian veto stood in the way. The pretext was the aversion of a "*humanitarian disaster*" being inflicted on Kosovan Albanians by their own government. As a justification for the lawful use of force this had a slender basis in Customary International Law.⁹

The British government declared an ambition to rectify this position in the UN. This appears a forlorn hope in the light of a Ministerial Declaration produced by the Foreign Ministers of the Group of 77 produced in New York in September 1999. The opinion of 132 States (including 23 Asian, 53 African, 22 Latin American and 13 Arab States)¹⁰ was that, "*the so-called right of humanitarian intervention ... has no basis in the UN Charter or International Law*". This brings to mind a striking passage from Samuel P Huntington's luminary book, "*The Clash of Civilisations, and the remaking of World Order*":¹¹

"The West won the world not by the superiority of its ideas or values but rather by its superiority in applying organised violence. Westerners often forget this fact - non-Westerners never do ..."

If a majority of constituents of the UN do not trust NATO sufficiently to give it the mandate to use force to avert genocide, how much less will the West be trusted not to use the prevention of terrorism as an excuse to deploy "*organised violence*" to impose its values on other nations?

The lack of ability of the UN as a means to sanction lawful "*humanitarian intervention*" was in turn reflected by the reaction of the ICJ following Yugoslavia suing 10 Member States of NATO for the bombing in May 1999. In its final decision of 2004 the ICJ decided it had no jurisdiction to determine whether Serbia and Montenegro had a valid claim that the NATO actions were unlawful. As Eric Posner pointed out in his New York Times article,

"the court was in an unenviable position: If it had held against the NATO States, they would surely have ignored the judgment. By holding in favour of these States, the court showed its irrelevance."

Regrettable as it may be, the ICJ's caseload is down when increased global interaction says it should be up and only half the number of nations that once submitted to its compulsory jurisdiction currently continue to do so. Again as Posner points out, there is too much evidence that the voting of the ICJ judges breaks down along political or (to use a Huntington term) "*civilisational*" lines.

It may be, therefore, that the door which the ICJ apparently opened, as a matter of theory, for the Bush doctrine would prove to be a siren call in reality and that by opting out of its compulsory jurisdiction the USA was only shutting the door on an illusion. Certainly the USA has

9 See Brownlie and Apperley, ICLQ 49 (2000) p.878-910.

10 See Brownlie op cit at p.712.

11 Simon & Schuster 1997.

made it plain that it does not want to test the impartiality of the new International Criminal Court and has conducted a highly effective guerrilla campaign of foreign policy to strangle it at birth.

What is clear, therefore, is that the Global Community currently lacks an effective international forum in the UN to effect consensual change in the law and usage of nations concerning warfare. The UN's judicial organ will almost inevitably tend to mirror that reality. If the USA wishes to rescue its foreign policy in general, and the War on Terror in particular from charges of unilateralism it may need to look to the nations that share its concerns (but may mistrust its motives), to join with it in forming a new international forum and a new judicial organ less susceptible to being rendered moot by the new "*civilisational*" economic and cultural fault lines emerging around the globe. Perhaps only then can the use of force to suppress terrorism and the abuse of Human Rights be brought back within the proper embrace of International Law.

V. WAR AND ITS CONSEQUENCES AS THE SUBJECT OF PRIVATE LITIGATION

On the face of it international courts and tribunals are the obvious place for the legality of warfare to be tested and the consequences of the unlawful use of force by States to be addressed. If there are signs that the occurrence and relevance of these issues being litigated are receding in the arena of permanent international fora,¹² one might expect the same thing to be happening in the sphere of municipal courts and tribunals dealing with the claims of private citizens and commercial concerns.

The notion that it is a constitutional heresy for the judiciary of domestic municipal courts to pass judgment on the actions of the executive arm of its own or other States in International affairs, does indeed create formidable obstacles in the way of private citizens seeking redress for the consequences of war in civil litigation. And yet there are some faltering signs of the "*fools*" in municipal courts stepping in where the "*angels*" of the ICJ now begin to fear to tread. The possibility of such a trend emerging can be traced through elements of the judicial (and in the US in particular) legislative approach to issues of Sovereign Immunity, and Act of State in the spheres of Human Rights and expropriation.

VI. SOVEREIGN IMMUNITY AND ACT OF STATE

It is only possible to seize on a few strands of this large subject in this short space.

In the sphere of expropriation, one particular spat between oil companies in the 1970s concerning exploration rights in the Persian Gulf, managed to put down judicial roots on both sides of the Atlantic. This may have marked the high point of the municipal courts refusing to trespass on the arena of State expropriation.

Dr Amand Hammer was a man not known for being afraid to resort to the law courts or speak his mind. When he believed that his Occidental Petroleum Corporation had lost out because he alleged that Buttes Gas had prevailed on the Ruler of Sharjah, with the collusion of the British government, to back-date a decree affecting an oil concession in territorial waters disputed between Sharjah, Umm al Qaiwain and Iran (which was also implicated); much litigation predictably ensued. Resolution of the dispute in the courts could effectively have required a determination of the boundary dispute and the conclusion that the States had acted as conspirators.

In the UK, the judgment of the House of Lords¹³ traced the emergence of a principle of "*non-justiciability*" as an off-shoot of the Act of State doctrine through both the English and American courts. It concluded that there was a longstanding principle of English Law, which was inherent in the very nature of the judicial process, that municipal courts would not adjudicate on the transactions of foreign States; that accordingly where such issues were raised in private litigation the Court would exercise judicial restraint and abstain from deciding the issues raised. Since the pleadings raised issues

¹² I mention "permanent" to differentiate the special Tribunals established ad hoc for Iran, Iraq and the former Yugoslavia.

¹³ [1982] AC 888.

(1) requiring the Court to review transactions in which four Sovereign States were concerned and (2) asking it to find at least part of those transactions unlawful under International Law, the issues raised were non-justiciable and incapable of being entertained by the Court.

This decision broadly mirrored the conclusions reached by the Fifth Circuit Court of Appeals and Supreme Court on the opposite side of the pond.¹⁴

The English Court which had not been informed by the Executive, as had the American Court, that such a deliberation could lead to embarrassment of the Executive in Foreign Relations, laid less emphasis on that issue than the American Courts. It did however, echo the Fifth Circuit Court of Appeals judgment by borrowing its language to say:

“there are ... no judicial or manageable standards by which to judge these issues, or to adopt another phrase ... the Court would be in judicial no-man’s land: the Court would be asked to review transactions in which four Sovereign States were involved, which they had brought to a precarious settlement, after diplomacy and the use of force, and to say that at least part of these were “unlawful” under International Law.”

The “*Buttes Gas*” principle of non-justiciability really amounts to just one more obstacle piled upon (1) the modern restrictive doctrine of Sovereign Immunity (where even expropriation as a consequence of war is unlikely to come within the exception of commercial activities by a State); and (2) the conventional Act of State doctrine which the Restatement 3rd, Foreign Relations Law records as follows:

“In the absence of a treaty or other unambiguous agreement regarding controlling legal principles, courts in the United States will generally refrain from examining the validity of a taking by a foreign State of property within its own territory or from sitting in judgment on other acts of a governmental character done by a foreign State in its own territory and applicable there.”

That principle was abrogated by Congress adopting the Second Hickenlooper or Sabbatino¹⁵ amendment which provides that:

“In the absence of a Presidential determination to the contrary, the Act of State doctrine will not be applied in a case involving a claim of title or other right to property, when the claim is based on the assertion that a foreign State confiscated the property in violation of International Law.”

Despite this strong steer from Congress the US Courts in the *Buttes Gas* litigation failed to pick up the ball and allow Dr Hammer to avail himself of the Hickenlooper amendment.

Instead, a chink of light may have appeared once more in the House of Lords¹⁶ where Iraqi Airways Co failed to use the *Buttes Gas* principle to strike out a claim by Kuwait Airways Corporation after Iraqi Airways had helped itself to the Kuwait civil air fleet under the fig leaf of Saddam’s Resolution 369 purporting to authorise that taking.

In its review of the authorities the House of Lords discerned three separate insights which it considered English law was seeking to balance in setting the appropriate role of national courts when faced with a defence of foreign legislative or executive acts. In abbreviated form those insights were:

- (i) a prima facie rule of Sovereign Immunity and absolute authority within the State’s own territory but not outside it;

¹⁴ *Occidental Petroleum Corp. v. Buttes Gas and Oil Co.*, 409 US; 93 S. Ct 272; 34 L. Ed. 2nd 221 (1972).

¹⁵ *Bunio Nacional de Cuba v. Sabbatino* 376 US 398, 428, 84 S.Ct. 923, 940 II L.Ed. 804, 823-824 (1964).

¹⁶ *Kuwait Airways Corporation v. Iraqi Airways Co.* [2002] 2 AC 883.

- (ii) a requirement for “*judicial or manageable standards*” as a yardstick, combined with a sensitivity to embarrassment in foreign relations - drawing a comparison to the distinction between governmental acts and acts in the commercial sphere under the modern law of Sovereign Immunity; and
- (iii) the notion that the requirements of English Public Policy, in particular the preservation of fundamental Human Rights, can override the principle of judicial restraint even where the acts are Sovereign acts within a State’s own territory.

These insights do appear at least to crack the door open a little for recompense for expropriation as a consequence of “*unlawful*” war and perhaps significantly more so in the field of fundamental Human Rights, which are also highly likely to be a victim of warfare.

Before turning to Human Rights it is worth noting in passing a recent legislative initiative in the United States which certainly places war-like activities centre stage in mass torts litigation. In 1996 Congress made two amendments to the Foreign Sovereign Immunities Act 1976 (FSIA) which created a jurisdiction against States and a statutory cause of action (at least) against State officials implicated in specified acts of State sponsored terrorism.¹⁷

On the face of it a detailed analysis of the legislation might well form the centrepiece of a paper on war as tort. On closer scrutiny, however, the legislative initiative seems so tightly hemmed in by executive hostility and judicial restraint that the statute may never give birth to much of wide jurisprudential reach, and appears a peculiarly domestic US affair. It is available only to US citizens against designated States and their officials for death and personal injury. Perhaps the interesting issue at the heart of it is whether State or Federal Common Law should be the genesis of a cause of action to the extent the section creates only a jurisdiction, and what part Customary International Law should play in all of that remains to be seen. This is a debate that has been played out in the context of fundamental Human Rights and a far more venerable legislative curiosity, namely the Alien Tort Claims Act of 1789.

Before we pass to that subject, two other sets of legal developments deserve brief mention which may yet affect the subject of war as tort.

First, the rash of 9/11 related litigation bears witness to the relevance of armed belligerence to tort claims, but has not (to my knowledge) yet percolated to the point of producing any significant new precedents. Secondly, there is now a whole raft of more or less accessible jurisprudence in the awards of ICSID and other Investment Treaty Tribunals who have the brief (and lack the qualms of municipal courts) to award compensation for wrongs allied to egregious acts of State in breach of the Law of Nations. With more than 2000 Bilateral Investment Treaties designed to protect the inflow of capital from one State to another, this has blossomed into a legal industry to the extent that there are signs of a backlash. Developing nations are beginning to suspect that such treaties may attract more liabilities than they do capital. The subject is beyond the scope of this paper and is mentioned for two reasons: first, because of the stark contrast in approach to embracing Public International Law as a calculus to establish private rights compared to what is available in municipal courts; secondly, because the model of a three party panel contrasted to the unwieldy and arguably “*politicised*” ICJ may be a better model for some new international forum to adjudicate liability and compensation for unlawful warfare - a thought revisited in the conclusion of this paper.

VII. FUNDAMENTAL HUMAN RIGHTS AND THE ALIEN TORT CLAIMS ACT

24 March 1999 is likely to go down as a red letter day in the history of the march of Human Rights against the forces of State oppression and Sovereign immunity. As the NATO jets headed for Kosovo, the House of Lords prepared to give judgment, for the second time, ruling that

¹⁷ FSIA Section 1605(a) 7 and the Flatow amendment - For an in depth discussion see Rutheinne M Deutsch, *The International lawyer* 2004 Vol.38 No.4 p.891.

former President Pinochet of Chile was not immune from extradition to face charges of having sanctioned torture and other grave abuses of Human Rights whilst Head of State.

Space does not permit an account of the dramatic events of that case or how the UK's highest Court was forced to hear it twice because of the undisclosed affiliations of one of the Law Lords to a Human Rights charity.

The theme evident in the Pinochet case which is relevant to the present discussion is the emerging supremacy of the "*jus cogens*" and its accessibility to national courts.

Jus cogens consists of the peremptory norms of Customary International Law from which there can be no derogation by any State as they are obligations owed to the international community as a whole.¹⁸ Amongst the less controversial examples of *jus cogens* are the prohibitions against genocide and slavery. More pertinent for present purposes, the prohibition of the unlawful use of force in international relations has also been recognised by the ICJ in (yes, you guessed it) *Nicaragua v USA*¹⁹ as being outlawed by *jus cogens*.

The significance of *jus cogens* in municipal courts in a torts context becomes apparent when we turn to the treatment by the Supreme Court of the Alien Tort Claims Act 1789 ("ATCA"). ATCA confers on District Courts "*original jurisdiction over any action for a tort only, committed in violation of the Law of Nations.*"

ATCA had languished largely unremarked for nearly two hundred years until the case of *Filartiga v Pena Inalá*²⁰ in 1980. A man had been tortured to death in Paraguay. His family succeeded in suing his alleged torturer when he visited the States, relying on ATCA. A rash of litigation seeking to emulate this ensued. The Supreme Court put the brakes on such litigation in the case of *Sosa v Alvarez Machain*²¹ in June 2004 by holding that only the most heinous acts qualifying as breaches of *jus cogens* could qualify as Public International Law claims available to private litigants. US sponsored kidnapping did not make it under this head. The ramifications of a conclusion to the contrary for the pursuit of the War on Terror had weighed heavily on many of the judges along the way. One cannot help but question whether the same reaction would have been engendered if the case had concerned Mexicans sponsoring the kidnap of an American on US soil instead of vice versa.

Nevertheless, it is reasonably plain that the door remains open for ATCA to be a medium for some of the worst manifestations of warfare and the unlawful use of force to be the subject of tort claims in private litigation, at least against the perpetrators of what would count as war crimes even in pursuit of a lawful war.

A much less likely prospect (particularly given the absence of any meaningful international mechanism to adjudicate the legality of a war *per se*) is the chance of any State or State agent being found liable in tort in private litigation for the type of "*organised violence*" towards people and property that is the very business of warfare.

VIII. CONCLUSION

When one compares the developments regarding warfare and its accompaniments in the arena of international justice with the incursions that domestic courts and tribunals have been making on this territory, it seems that the latter are doing rather better.

It is hard not to sympathise with the wish of private victims of terrible actions to find redress. The balance which national courts in the UK and US may be attempting to strike is to compensate the victims of those actions that are at the extremities of warfare and oppression which

18 Barcelona Traction case ICJ Reports (1970)3 at 32.

19 ICJ Reports (1986) 100-1 (para 190).

20 630F.2d 876 (2d Cir. 1980).

21 Supreme Court of the United States No. 03-339, 29 June 2004.

offend the sensibilities of all right thinking peoples, wherever they may take place and without allowing any individual (even a Head of State) to assume the mantle of Sovereign protection to spare themselves from retribution for such acts. The tensions at the limits of these developments are where the judiciary and the executive are trying to keep in check the wish of private citizens to bring the State perpetrators themselves to account. The State sponsored terrorism amendments to the FSIA appear to be a case in point.

It becomes harder to restrain this impetus to seek redress in private litigation instead of international courts when a war, which both the British and American governments of the moment believed was just, appears to have broken outside the limits of the legal regime that the US and UK themselves established, and beyond the reach of either the censure or blessing of the judicial organ which they set up to adjudicate that regime.

If there is no international legal forum in which States can be brought to account then, *faute de mieux*, national courts may look to provide it.

The problem with this is that the history of US courts, in particular, assuming exorbitant jurisdiction has not been a happy one for international relations. For this reason, US judgments remain a less exportable commodity than most of their counterparts in Europe and elsewhere. Even the UK retains legislation specifically crafted to curb the worst excesses of US damages judgments.²²

The most ardent protagonist of the American way must surely recognise that a Class Action lawyer on a contingent fee, armed with extraterritorial jurisdiction and in pursuit of multiple or punitive damages, is not a safe agent to foster harmony in the global community.

But with so little chance of consensus in the UN, and the increasing impotence of the ICJ, what option can there be?

One alternative model may be the community of international Arbitrators who (with a perhaps alarming lack of checks and balances) are developing a unique expertise in mingling Public and Private International Law to give redress against Nation States to private litigants in the sphere of investment disputes.

There must surely be a sufficient body of, more or less, like minded nations to create a new international institution and subscribe to a new multilateral treaty, specifically directed to the prevention and redress of acts of terror, genocide and oppression. The new international body could have its own accompanying judicial mechanism.

Such a body might even foment a progression in the usage of nations sufficiently widespread to generate new Customary International (as well as conventional) Law capable of giving legal sanction to countermeasures (even extending to the proportionate use of force across national boundaries) aimed at occluding the sources of terrorism and averting the worst abuses of Human Rights. A dispute resolution mechanism to accompany such a treaty and international institution need not be peopled on each occasion by judges drawn from the whole constituent community which would be bound to reflect and be impeded by the cultural and "*civilisational*" fault lines which are forming the new topography of global politics.

Instead, each Nation State party to a dispute could have the right to appoint an arbitrator (perhaps a non-national) with a third arbitrator appointed by agreement between the nominees or, in default by a committee of the international body. A State's right to take proportionate countermeasures to avert terrorism pursuant to norms laid down by the treaty could be left to the State itself, but the decision subject to challenge in an arbitral tribunal with jurisdiction to award redress. Such tribunals could be far more nimble than an unwieldy "*World Court*" and could, multiply if needed. This could readily expand to assume a caseload that might embrace a dramatically increased number of State sponsored private claimants.

22 Protection of Trading Interests Act 1980.

To make that process meaningful an international legal aid fund administered by the international body could be a vital mechanism both to fund eligible victims and to filter applicants, requiring nominal State sponsorship for their claims.

In the real world, however, whilst Mr Blair may have some appetite for these suggestions, it is unlikely that Mr Bush would find them to his liking. Unless and until he develops such an appetite, they will remain a Utopia. Perhaps the two of them should meet like Churchill and Roosevelt, onboard a vessel anchored off Newfoundland, or even here in the magnificent Arizona landscape.

CLASS ACTION ATTORNEY FEES: THE KEY ROLE OF THE FEDERAL DISTRICT JUDGE IN FASHIONING & MONITORING MASS-TORT COMMON FUND DISTRIBUTIONS TO ASSURE A SETTLEMENT DEEMED EQUITABLE BY BOTH REPRESENTED & UNREPRESENTED CLASS MEMBERS, & BOTH PRIVATE & CLASS COUNSEL.

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I. THE COMMON FUND - AN EXCEPTION TO THE AMERICAN RULE.

Pursuant to the standard “American rule” practice, each litigant pays his own attorneys’ fees. Those individuals not in an attorney-client relationships have no duty to pay attorneys’ fees. *See, e.g., Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 245, 95 S.Ct. 1612, 1615 (1975). In the context of class actions, however, strict adherence to the American rule would create a problem of “free-riding,” whereby individuals who benefit from the litigation efforts of others, without contributing equally to their litigation expense, become unjustly enriched. *Catullo v. Metzner*, 834 F.2d 1075, 1083 (1st Cir.1987); *See also In Re Nineteen Appeals Arising Out Of The San Juan Dupont Plaza Hotel Fire Litigation*, 982 F.2d 603, 606 (1st Cir. 1992), citing, generally, Mancur Olson, *The Logic of Collective Action* (1971) (“If a court hews woodenly to the American rule under such circumstances, each attorney, rather than toiling for the common good and bearing the cost alone, will have an incentive to rely on others to do the needed work, letting those others bear all the costs of attaining the parties’ congruent goals.”)

Recognizing this potential inequity, more than a century ago, the United States Supreme Court declared that where the litigation efforts of a private individual or his attorney create, discover, increase or preserve a *common fund*, all who benefit from that fund must contribute *proportionately* to the costs of that litigation. *Trustees v. Greenough*, 105 U.S. 527, 535 (1881). In *Greenough*, the plaintiff was a large shareholder of bonds of the Florida Railroad Company who brought suit on behalf of himself and other bond holders against trustees of the Internal Improvement Fund of Florida. *Id.* at 528. The trustees had been responsible for protecting valuable assets (*i.e.*, over ten million acres of state-owned land). *Id.* The plaintiff successfully charged that the trustees were wasting and destroying the fund available to them by selling the land at nominal prices. *Id.* at 529. As a result, the conveyances were set aside and a large amount of the trust fund was secured and saved. *Id.* at 531. When the plaintiff sought to recover attorneys’ fees, the U.S. Supreme Court recognized that he had borne the entire burden of the litigation and had personally advanced most of the expenses necessary to render the litigation effective and successful. *Id.* at 529. The Court reasoned that he acted the part of a trustee in relation to the common interest. *Id.* at 532. Furthermore, the Court found that the plaintiff was due attorneys’ fees because if he did not receive them:

[i]t would not only be unjust to him, but it would give to the other parties entitled to participate in the benefits of the fund an unfair advantage. He has worked for them as well as for himself; and if he cannot be reimbursed out of the fund itself, they ought to contribute their due proportion of the expenses which he has fairly incurred. To make them a charge upon the fund is the most equitable way of securing such contribution.

Id. This “common fund” doctrine was employed in order to prevent unjust enrichment - “[spreading] litigation costs proportionately among all the beneficiaries so that the active beneficiary does not bear the entire burden alone and the ‘stranger’ beneficiaries do not receive their benefits at no cost to themselves.” *Vincent v. Hughes Air West, Inc.*, 557 F.2d 759, 769 (9th Cir. 1977), citing Dawson, *Lawyers and Involuntary Clients in Public Interest Litigation*. 84 Harv. L. Rev. 849, (1975).

Since *Greenough*, the United States Supreme Court has reinforced the common fund doctrine and, indeed, even broadened its application. See, e.g., *Central R.R. & Banking Co. of Georgia v. Pettus*, 113 U.S. 116, 125, S.Ct. 387, 391 (1885) (attorneys who brought suit on behalf of particular, unsecured creditors benefited all unsecured creditors and thus, were entitled to a fee from the common fund); *Sprague v. Ticonic*, 307 U.S. 161, 166-167, 59 S.Ct. 777 (1939) (attorney’s success in securing a lien on the bonds that had been earmarked for his client was entitled to recover fees from the 14 other individuals who would benefit as a result of *stare decisis*); *Mills v. Electric Auto-Lite*, 396 U.S. 375, 392-3, 90 S.Ct. 616 (1970) (ultimate monetary recovery, i.e. a traditional “fund,” is unnecessary where “substantial benefit”¹ is bestowed upon an ascertainable class); *Boeing Co. v. Van Gemert*, 444 U.S. 472, 478 (1980) (attorneys’ fees in common fund cases could be charged to the unclaimed portion of the fund).²

II. EQUITABLY SPREADING THE COSTS (AND BENEFITS) ASSOCIATED WITH MASS TORT LITIGATION: APPLICATION OF THE COMMON FUND DOCTRINE IN A SAMPLE OF CASES.

Typically, beneficiaries of a common fund share equally in the cost of the litigation by a *pro rata* reduction in their recovery from the fund, so that apportionment among counsel is generally accomplished through the fee award itself, even if the beneficiaries are not fully identified. *Id.* Appropriate apportionment, however, becomes more complicated in the context of class actions and mass torts. Derfner ME, Wolf AD. *Court Awarded Attorney Fees*. (Lexis Nexis Matthew Bender 2004) at Section 17.03[3]. In these cases, because of a litany of competing interests, courts must more actively intervene. The goal is a dual one. It is to ensure: 1) that benefits among similarly situated class members are substantially equal and 2) that the allocation of fees among counsel is reasonable and proportionate to their respective contributions to the creation of the fund.

A. Courts Have Broad Equitable Power To Supervise The Collection Of Attorneys’ Fees.

Courts have broad equitable power to supervise the collection of attorneys’ fees and to refuse to enforce contracts (whether contingent or otherwise) that award fees which are excessive and unreasonable. *Green v. Nevers*, 111 F.3d 1295, 1302 (6th Cir. 1997); *McKenzie Const., Inc. v. Maynard*, 758 F.2d 97, 100 (3rd Cir.1985); *Dean v. Holiday Inns, Inc.*, 860 F.2d 670, 673 (6th Cir.1988). Where an attorney recovers a fund in a suit under a contract with a client, the court, having jurisdiction of the subject matter of the suit has the power to determine the attorney’s compensation and to direct its payment out of the fund, notwithstanding any contingency fee agreement. *Garrett v. McRee*, 201 F.2d 250, 253 (10th Cir.1953); *Cappel v. Adams*, 434 F.2d 1278, 1279 (5th Cir.1970). Further, “[t]he sum determined to be a reasonable attorney’s fee is within the discretion of the district court; before a reviewing court should disturb the holding, there should be a clear showing that the trial judge abused his discretion.” *Id.* at 1280. See also *United States ex rel. Taxpayers Against Fraud v. General Electric*, 41 F.3d 1032, 1047 (6th Cir.1994) (“an attorney’s right to contract for a contingent fee is not completely beyond judicial control.”); *Kalyawongsa v. Moffett*, 105 F.3d 283, 286 (6th Cir.1997) (“federal district judges have broad equity power to supervise the collection of attorneys’ fees under contingent fee contracts.”)

In the context of class actions and mass torts, the deference afforded to courts to approve, reject or limit fees is even greater, and ought to be. *In re Joint E. and S. Dists. Asbestos Litig.*, 878 F.Supp. 473, 558-59 (E.D.N.Y.1995), citing, 7B Charles Alan Wright, Arthur R. Miller & Mary Kay

¹ This doctrine is sometimes referred to as the “substantial benefit” doctrine.

² The anti-“free rider” principle is found in other areas of the law as well. See, e.g., *Abood v. Detroit Board of Education*, 431 U.S. 209 (1977) (The Court found no first amendment violation in requiring a non-union public employee to pay a fee for “non-ideological” collective bargaining activities given the resultant benefits to him.)

Kane, Federal Practice and Procedure Section 1803 (1986 & 1994 Supp.); *In re "Agent Orange" Prod. Liability Litig.*, 611 F.Supp. 1296, 1303-04 (E.D.N.Y.1985), *aff'd in part, rev'd in part*, 818 F.2d 226 (2d Cir.1987); Lester Brickman, Michael J. Horowitz & Jeffrey O'Connell, *Rethinking Contingency Fees* (Manhattan Institute 1993); Lu CP. *Procedural Solutions to the Attorneys' Fee Problem in Complex Litigation*. 26 U.Rich.L.Rev. 41 (1991); *In Design v. K-Mart Apparel Corp.*, 13 F.3d 559, 568-69 (2nd Cir.1994).

In determining what fund apportionment is fair and reasonable in the context of class actions or mass torts, courts must consider a number of competing concerns: 1) whether absent class members are being unjustly enriched at the expense of class representatives;³ 2) whether absent or putative class members are being unjustly enriched at the expense of the attorneys working on behalf of the class;⁴ 3) whether attorneys are being reasonably compensated for their efforts to advance the common interests (taking into account their skill, investment of resources, risk, as well as the need to provide incentives so that able counsel are available in the future); 4) whether attorneys are being reasonably compensated for their efforts to advance the interests of their individual clients;⁵ 5) whether certain lawyers are being unjustly enriched by the efforts of other counsel; 6) whether the parties are agreeable to the settlement terms (or, alternatively, whether there is a substantial risk that a prohibitive number of claimants will opt-out of the settlement); 7) whether the community will perceive the settlement allocations among class members as fair; and 8) whether the community will perceive the settlement allocations among counsel as reasonable and proportionate to their particular contributions to the creation of the common fund.

B. Courts Have Employed Various Approaches In An Attempt To Ensure That Class Members Are Allocated Common Benefits Equitably And That Attorney Fees Are Reasonable And Substantially Proportionate To Counsel's Contributions To The Creation Of The Common Fund.

Over the past three decades, courts have sought to balance the above interests using a variety of approaches. Given the differing circumstances in each case, no single approach should serve as a definitive guide. Indeed, as the following will illustrate, despite the courts' valiant efforts, some inequity is inevitable whatever approach or combination of approaches is used. This is so given the complexities present - the diverse nature of injuries and the multitude and different subclasses of beneficiaries and of counsel.

Approach One: Each beneficiary pays his proportionate share of the common benefit fees. Those with private counsel deduct that amount from what is owed to their private counsel.

Approach One requires unrepresented and represented class members to pay proportionate shares of the common benefit fees. The courts have generally recognized, however, that 1) represented class members are already required to pay attorney fees, and that 2) their private attorneys were required to do less work, due to the contributions of common benefit attorneys. These courts have required that the represented class members' shares be deducted from the amount that would otherwise be payable to their privately retained lawyers. *See, e.g., In re Orthopedic Bone Screw Litig.* 1996 WL 900349 (E.D. Pa. 1996); 2000 WL 1622741 (E.D.Pa. 2000); *In re Diet Drugs (Phentermine, Fenfluramine, Dexfenfluramine) Products Liability Litigation*. MDL Docket No. 1203. *Sheila Brown v. American Home Products Corporation*. Civil Action No. 99-20593. Memorandum and Pretrial Order No. 2622. In the *Bone Screw* litigation, all claimants were ordered to contribute 12% of their settlement benefits for common benefit fees and 5% of their settlement benefits for common benefit costs. This 17% sum was deducted from the amount that was owed to private

³ Newberg on Class Actions, Section 14 at 505, 547 (4th ed. 2002); *see also Brytus v. Spang & Co.*, 203 F.3d 238, 242 (3d Cir. 2000). *Skeleton v. General Motors Corp.*, 860 F.2d 250, 252 (7th Cir. 1988).

⁴ Newberg, *supra*, at 546 (Counsel "who has created a benefit [through their particular efforts], for third parties, [e.g., absent class members], such as a common fund for the benefit of a class, [are entitled] to recover reasonable fees and expenses as awarded by the court from the common fund created.")

⁵ *See In re Joint E. and S. Dist. Asbestos Litig.*, 878 F.Supp. 473, 558-59 (E.D.N.Y.1995) ("In any mass tort case, there is an opportunity for a small number of attorneys, each individually representing large numbers of potential claimants, to secure for themselves huge attorneys' fees under individual contingency contracts that bear little or no relation to the actual work to be done or the risks in the case. The problem is particularly acute in the context of a stipulated settlements, where subsequent legal work on behalf of most individual claimants will be relatively routine, mechanical and almost certain to result in recovery.")

lawyers. *Also see In re Diet Drugs (Phentermine, Fenfluramine, Dexfenfluramine) Products Liability Litigation*. MDL Docket No. 1203. *Sheila Brown v. American Home Products Corporation*. Civil Action No. 99-20593. Memorandum and Pretrial Order No. 2622. In the *Diet Drugs* litigation, claimants were required to pay common benefit attorneys (defined as those attorneys who actually contributed to the creation of the settlement funds through work devoted to the “common benefit” of class members - including any attorney who actually conferred benefits upon the class through state court litigation) 9% of every matrix compensation benefit awarded. As in the *Bone Screw*, where a class member had private counsel, that 9% was deducted from the individual’s private attorney’s fee.⁶

Although this approach helps to balance the burden of litigation costs, not surprisingly, it is imperfect - at times substantially so - as are the other approaches discussed below. In the *Diet Drugs* litigation, for example, were a class member to receive a \$100,000 matrix award and have a 33 1/3% contingency fee contract with a private attorney, her attorney would receive approximately \$24,000 (\$33,333 - \$9,000) and the class member would receive approximately \$67,000 - the same as if there had been no assessment at all. An unrepresented class member, however, who likely never filed a lawsuit, never conducted discovery and had little or no influence in motivating the defendant to settle, would receive \$91,000 - 26% more than the class member with privately retained counsel. This disparity was only somewhat mitigated by the tasks that the unrepresented was required to do for herself (e.g., order medical records, understand and prepare claim forms, challenge a claims administrator’s negative determination.)

Approach Two: Each beneficiary pays his proportionate share of the common benefit fees. Privately retained counsel are not entitled to collect any fees - even those under their contingency fee agreements - because they made little or no contribution.

To protect against a disparity in the benefits received by unrepresented and represented class members, another court eliminated private attorneys’ fees altogether. *In re Agent Orange Product Liability Litigation*, 611 F.Supp. 1296, 1317 (E.D.N.Y. 1985), *Rev’d. in part on other grounds by In re Agent Orange Product Liability Litigation*, 818 F.2d 226 (2nd Cir. 1987) In *Agent Orange*, the court determined that the amount of fees to be paid to class counsel would come off the top of the common fund and ordered that all remaining funds be proportionately dispersed to the class. While private attorneys were entitled to reimbursement for out-of-pocket litigation expenses, they were prohibited from enforcing private fee agreements where their efforts “at best contributed less than marginally toward any recovery ultimately to be received by [their class member-client] from the fund.” The district court determined that any fee paid to privately retained counsel would be unreasonable.

While this approach eliminates any inequity as between represented and unrepresented class members, it is an imperfect one. Even if, as observed by the court, privately retained counsel only minimally advanced the interests of settlement, it seems both unreasonable and unfair that they would be entitled to no fee at all. This approach, not surprisingly, is surely likely to discourage attorneys from participating in future class action litigation.

Approach Three: Each beneficiary pays his proportionate share of all fees that are distributed from the common fund among common benefit and privately retained counsel.

Usually, common benefit attorneys in a class action deserve and receive a premium share of the common fund fees (premised on the theory that their efforts are more important and time consuming than those of the privately retained counsel). Such an award, however, may be deemed unwarranted in certain circumstances. *See, e.g., In re Thirteen Appeals Arising out of the San Juan Dupont Plaza Hotel Fire Litig.*, 56 F.3d 295, 305 (1st. Cir. 1995). In *Dupont Plaza*, both common benefit and privately retained counsel received their fees off the top of the common fund. While the trial court initially allocated a larger percentage of fees to the common benefit attorneys, the appellate

⁶ Common Benefit Attorneys were also awarded fees from a fund created by the Defendant for individuals who did not have matrix injuries.

court challenged the award as improperly minimizing the value of services provided by private counsel. The court stated:

In a securities class action many of the victims do not participate in the lawsuit, and are aware of their loss dimly, if at all. . . . The mass tort context supplies a stunning contrast. In a **mass tort** action, the victims' losses (whether of life, limb, or loved ones) are almost always keenly felt, and are usually not amenable to computation by a simple arithmetic formula. As a result, the individual plaintiffs typically require a multitude of services, many of which cannot be satisfied by an impersonal steering committee. In such circumstances, the attention of the individually retained attorneys becomes crucial to the success of the overall enterprise. That important contribution demands appropriate recognition.

* * * *

One [privately retained lawyer], now deceased, made this point in a submission to the district court: "In the course of representing these clients, the attorneys and staff did hundreds of hours of work that was not separately billed but that is a part of the work of competent and dedicated [private counsel]. For example we helped to arrange the shipping of bodies from Puerto Rico to their homes, counseled families ... to help them function as witnesses, obtained [hard to locate] records, investigated possible criminal activity, searched for heirs, negotiated with creditors, and with law enforcement agencies, and researched legal issues such as the rights to awards from the State insurance fund."

Id. at 311 n.13.

Even though Approach Three balances the interests of common benefit and privately retained counsel, it too is imperfect. However invaluable many of the described tasks performed by private counsel were, such work did nothing to directly advance the interests of the mass. Compensating these private lawyers for such work from the common fund could only be equitable where all of the claimants had retained private counsel, had required such attention from them, and where their contingency fee agreements called for similar fees.

Approach Four: All class members pay their proportionate share of fees awarded to attorneys (both class and privately retained) who contributed to the common benefit. Counsel who are awarded such common benefit fees are to reduce accordingly the amounts they are entitled to receive in private contingency fees. Beneficiaries who retained private counsel that did nothing to contribute to the creation of the common fund, however, must still pay their lawyers the full amount owed under their private contingency fee agreement.

In the case of *In re Telectronics Pacing System, Inc.* 137 F.Supp.2d 985 (S.D. Ohio 2001), the court decided on a total amount to be awarded to those attorneys (both class and privately retained) who had advanced the interests of the class. Class counsel were given the responsibility of appropriately dispersing the fees (with supervision from the court, if necessary). The court further ordered that whatever compensation arrangements the attorneys had with individual clients be reduced by the amounts they received from the common fund fee and expense awards.

Like its predecessors, Approach Four also is an imperfect one. First, it may be unrealistic to expect that common benefit attorneys would carry out the court's admonition to adjust private contingency fee agreements conscientiously and appropriately. Second, Approach Two enables private attorneys who did nothing to advance the interests of the class to be unjustly enriched at the expense of the common-benefit attorneys who created the benefit.

Approach Five: Common benefit attorneys receive a percentage of the fees owed to privately retained counsel. Unrepresented claimants need not contribute.

To the extent that privately retained counsel have fewer responsibilities as a result of the efforts of those working to advance the interests of the mass, it is appropriate that the fees of the former be reduced to support the fees of common benefit attorneys. A few courts, though, have made this private attorney fee reduction the *only* source of funds to support common benefit attorneys, requiring unrepresented claimants to contribute nothing. See, e.g., *In re Air Crash Disaster at Florida Everglades*, 549 F.2d 1006 (5th Cir. 1977); *Smiley v. Sincoff*, 958 F.2d 498, 501 (2nd Cir. 1992); *In re MGM Grand Hotel Fire Litig.*, 660 F. Supp. 522 (D. Nev. 1987). In the first two of these cases involving airplane crashes, the courts ordered that individuals who had retained private lawyers (who had not furthered the common benefit) pay 8% of all settlements into a fund created to pay common benefit attorneys. This amount was to be deducted from each plaintiffs' lawyers' privately retained fee. Those who had not retained private counsel (or, in the case of *Smiley*, even those who refused to compensate their private counsel) were exempted from having to pay any common benefit fees (as were those, in the case of *Smiley*, who settled prior to a particular date or for less than \$75,000). In the *MGM Grand* case, in addition to awarding common benefit lawyers 7% of each private lawyer's fee, the court capped private contingency fees at 33 1/3 %.

Although there were likely relatively few, if any, claimants who were unrepresented, to the extent that there were any, they were unjustly enriched by not having to pay their share of the costs of litigation.

Approach Six: Common benefit fees are deducted only from benefits to be paid to unrepresented claimants. Represented claimants receive "immunity," given their fee obligations under private agreements.

Other courts have conversely placed the entire burden of supporting the common benefit attorneys on the unrepresented claimants, 'immunizing' those claimants who had retained private counsel. See, e.g., *Lindy Bros. Builders, Inc. of Phila. v. American Radiator & Standard Sanitary Corp.*, 341 F.Supp. 1077 (E.D.Pa. 1972) *opinion vacated by Lindy Bros. Builders, Inc. of Phila. v. American Radiator & Standard Sanitary Corp.*, 487 F.2d 161, 169 (3rd Cir. 1973); on remand to *Lindy Bros. Builders, Inc. of Philadelphia v. American Radiator & Standard Sanitary Corp.*, 382 F.Supp. 999 (E.D.Pa. 1974); *opinion vacated by Lindy Bros. Builders, Inc. of Philadelphia v. American Radiator & Standard Sanitary Corp.*, 540 F.2d 102 (3rd Cir.(Pa.) 1976). In *Lindy*, the court determined the amount of fees that common benefit attorneys should be awarded - regardless of source (*i.e.*, whether from monies due under private contingency agreements or from the common fund). Unrepresented claimants were required to contribute a percentage of that total amount, proportionate to the percentage of the common fund that they were entitled to (in that case 28.6%). Claimants who had privately retained counsel were not required to pay common benefit attorney fees. Rather, they paid their private counsel those amounts owed pursuant to attorney-client contracts.

The *Lindy* court offered this common benefit fee "immunity" even to those claimants who retained an attorney that only contributed indirectly to the common benefit. The court observed that some lawyers benefited the class merely by filing many individual suits against the defendants, the multiple filings "necessarily help[ing] bring about the settlement agreement which produced the substantial settlement fund." 341 F.Supp. at 1085-86. Other courts have offered such immunity more conservatively - requiring private lawyers to be active in the litigation in order to secure a client's exemption from paying his share of the common benefit fees. Derfner MF, Wolf AD. *Court Awarded Attorney Fees*. (Lexis Nexis Matthew Bender 2004) at Section 17.03[3][c]. See also *In re Fine Paper Antitrust Litigation*, 98 F.R.D. 48, 234-35 (E.D.Pa.1983) (immunity rule applies only to those class members "who had filed suit and participated in the litigation," *rev'd. on other grounds*, 751 F.2d 562 (3rd Cir.1984); *Vincent v. Hughes Air West, Inc.*, 557 F.2d 759, 772 (9th Cir. 1977) (Litigants may not engage in "coattailing" to escape fee liability.); *In re Agent Orange Prod. Liability Litig.*, 611 F. Supp. 1296 (E.D.N.Y. 1985), *aff'd in part and rev'd in part on other grounds*, 818 F.2d 226 (2nd Cir. 1987)

(Lead or liaison counsel who “achieve the beneficial result” are entitled to receive compensation from claimants who are only “nominally represented by counsel.”); *In re Air Crash Disaster at Florida Everglades*, 549 F.2d at 1019-21 (Inactive counsel must contribute from their fee receipts).

III. *IN RE SULZER ORTHOPEDICS INC. HIP PROSTHESIS AND KNEE PROSTHESIS PRODUCTS LIABILITY LITIGATION - A NOVEL BUT STILL IMPERFECT APPROACH.*

In *In Re Sulzer Orthopedics Inc. Hip Prosthesis and Knee Prosthesis Products Liability Litigation* (MDL 1401) 268 F.Supp.2d 907, the district court judge employed a creative combination of approaches to address concerns of equity. The resultant product, although imperfect, was perceived as fair by parties and clients alike.

A. A Flood Of Litigation Exposed The Defendants To Liability That Far Exceeded Their Assets.

By April 2002, more than 2,000 cases were pending (some filed on behalf of individuals, others filed on behalf of a class) against Sulzer Orthopedics *et al.* arising out of the manufacturer of defective hip and knee prosthetics. In just one of those lawsuits, *Helen I. Rupp and Bernard Rupp, Naomi B. Bonorden, Lillian Sallinger and Carl Sallinger v. Sulzer Orthopedics, Inc.* (Nueces Cty., Texas, August 30, 2001) Case No. 01-60581-4, a jury awarded compensatory and punitive damages that exceeded \$15.5 million to 3 plaintiffs. As tens of thousands of individuals had been implanted with one of the subject devices, the companies’ liabilities far exceeded their available assets. Thus, bankruptcy loomed and injured members of the class risked receiving little or no compensation; indeed, *any* compensation could have been substantially delayed.

After the United States Supreme Court decided *Ortiz v. Fibreboard Corp.*, 527 U.S. 815, 846 (1999) and *Amchem Prods., Inc. v. Windsor*, 521 U.S. 591 (1997), it was not possible to approve a mandatory (i.e. non-opt out) limited fund settlement under the circumstances of the case. The company was understandably unwilling to fully fund the \$1.1 Billion settlement only to be exposed to a large number of opt-out suits. Accordingly, it was imperative that the settlement was attractive to both class members and their attorneys, who would undeniably influence the formers’ decisions to opt-in.

B. The Court Balanced The Equities Between Represented And Unrepresented Class Members.

The Court couldn’t risk offending private counsel having influence over potentially thousands of claimants who could be persuaded to opt-out by reducing their contingency fees dramatically. At the same time, payment by their clients of private attorney fees in full would create a dramatic disparity in the benefits received by their clients as contrasted with the unrepresented. To address these concerns, one provision of the court-approved settlement established a fee-subsidy program. *Sulzer*, 268 F.Supp.2d at 927. Class members who had retained private counsel received not only their *pro-rata* share of the fund, but also received from the common fund a fee subsidy of up to 23% of an awarded benefit multiplied by 1.25, covering, in large part, the amount they owed to their private counsel.

The partial payment by the Settlement Trust of contingent fees owed by certain class members to their attorneys is not only a benefit to those class members, it is also a monetary recognition that the attorneys’ general litigation efforts, and/or advice to their clients to participate in the settlement agreement, provided a common benefit to the entire class.

Id.

This fee subsidy totally eliminated the disparity between represented and unrepresented class members (where an attorney was willing to accept the subsidy as payment in full) and substantially lessened the disparity where private counsel rejected that compromise. The fee subsidy program can be illustrated as follows:

Where an individual was required to undergo a surgery during which physicians would remove and replace a defective prosthetic, pursuant to the Settlement, h/she would recover a base amount of \$160,000. If that individual was not represented by a private attorney, h/she would collect that entire amount. Were it not for the subsidy, a claimant represented by private counsel would receive, in most instances, one third less than the \$160,000 or \$106,666 - a disparity that was understandably unacceptable to those attorneys who had actively litigated on their clients' behalf.

Pursuant to the court-approved Settlement, however, the unrepresented claimant received \$160,000. The represented claimant received \$160,000 plus a fee subsidy of 23% of \$160,000 x 1.25 [i.e. \$200,000] = \$46,000. Private counsel were entitled to take a fee [e.g. 33.3333%] on 160,000 x 1.25 = \$66,660. After subtracting the fee subsidy - paid directly out of the settlement, the client would owe much less (i.e., \$20,660).

While, admittedly, in some cases, there remained that disparity, it was somewhat mitigated by the receipt of ongoing representation by private counsel who, for example, collected medical records, prepared claim forms, and appealed determinations made by the Claims Administrator.

C. The Court Balanced The Equities Between Privately Represented Class Members And Their Attorneys By Limiting Contingency Fees.

First, the judge, pursuant to her authority under the Settlement Agreement, allowed enforcement only of those contingency fee contracts entered into prior to February 2, 2002:

Specifically, any contingent fee agreement between an attorney and a plaintiff class member in this case, which was completed after February 2, 2002 and was intended to allow the attorney to recover contingent fees in this case, is neither ethical nor permissible, and may not to be enforced. No person may take any steps to enforce any such agreement, and any attorney who has obtained contingent fees pursuant to such a contract shall return those fees to the plaintiff class member.

D.C. Docket No. 1268 (October 31, 2003) at 1-2.(emphasis added).

Second, privately retained counsel were encouraged to accept the above described 23% subsidy as payment in full.

Third, the court-approved settlement established various funds that were not subject to contingent fees. Specifically, privately retained counsel were not entitled to collect fees on their clients' *pro-rata* share of the Medical Research and Monitoring Fund (\$1 Million); Unrevised Affected Product Recipient Fund (\$28 Million); or the Subrogation and Uninsured Expenses Sub-Fund (\$60 Million).

D. The Court Balanced The Equities Between Some Common Benefit Attorneys And Members Of The Class

Where an attorney served as private counsel (entitling the attorney to a fee subsidy from the common fund) and worked to further the interests of the class (entitling the attorney to a common benefit fee), that dual benefit was a factor considered by the court in determining the appropriate amount of his common benefit fee. The court reasoned as follows:

[A]n attorney's receipt of contingent fee payments out of the settlement trust, rather than out of an award to his individual client, must be a factor in the assessment of that attorney's common benefit fee award.

E. Despite The Court's Best Efforts, There Remained Imperfection.

Given the circumstances described in Section IIIA, *supra.*, and subject to the restrictions described in Section IIIC, the court found it appropriate to permit privately retained counsel to fully enforce their contingency fees, regardless of the attorneys' contribution to the creation of the common fund. In this respect, some privately retained lawyers were unjustly enriched by their clients and by the efforts of other counsel.

IV. CONCLUSION

In these complex cases, there will inevitably be risks of inequity between privately represented and unrepresented claimants, and among the differing counsel - common benefit attorneys, private counsel and hybrids (*i.e.*, attorneys serving in both capacities.). The district judge should consider his or her options in attempting to eliminate or substantially mitigate these potential inequities, given the circumstances. Choosing the right combination of allocation approaches will be central to achieving the goal of equity among beneficiaries and, secondarily, among counsel.

THE SEDONA GUIDELINES: BEST PRACTICES ADDRESSING PROTECTIVE ORDERS, CONFIDENTIALITY & PUBLIC ACCESS IN CIVIL CASES (APRIL 2005 PUBLIC COMMENT VERSION)

The Sedona Conference® Working Group on Protective Orders, Confidentiality & Public Access (WG2)
Co-Edited by *The Hon. U.S.M.J. Ronald J. Hedges (D NJ)*
and *Kenneth J. Withers,*
Federal Judicial Center, Washington, DC

Editor's Note

This is the public comment version of this document, which is also posted on our website (www.thesedonaconference.org), complete with a piece containing some alternative view points, all the appendices, and a public comment form. Comments may be sent to us at tsc@sedona.net on or before 1/31/06. This is the work product of the Working Group as a whole, and does not necessarily represent the views of any of the individual participants or observers or their employers, clients, or any other organizations to which any belong nor does it necessarily represent official positions of The Sedona Conference.

DEDICATION TO H. BRENT MCKNIGHT (1952-2004)

H. Brent McKnight, a member of the Steering Committee of this Working Group, passed away in the year between the group's first meeting and the publication of its first draft Principles. Years before, Brent had been a Morehead Scholar who spent an internship working for Senator Sam Ervin, reading through 1,100 boxes of Watergate documents. As a Rhodes Scholar, studying religious philosophy under Bishop Stephen Neill at Oxford, Brent decided that justice was a true goal of religion and that justice would be his career.

I first met Brent when he was a United States Magistrate Judge in the Western District of North Carolina. A group had gathered in Charlotte to record courtroom vignettes to teach attorneys about electronic discovery. He took the role of the judge in the vignettes. We were all struck by the fact that he kept asking us to make sure he was getting it right. We were amazed at his humility wedded to intelligence; his sense of humor wedded to hard work.

The last time I saw Brent, we were discussing privacy in litigation while shopping in Sedona for gifts for his wife and children. He quoted poetry to underscore his thoughts, interspersed with tales of his sons' accomplishments. Prosecutor, state court judge, United States Magistrate Judge, United States District Judge, teacher, writer, scholar, husband, father, colleague, friend. Through all this he infused his desire to see justice.

To you, Brent, we dedicate our work. May it help others advance the justice to which you devoted your life.

Alan Blakley

FOREWORD

Welcome to the first publication of our second Working Group, this one devoted to Best Practices and Guidelines Addressing Protective Orders, Confidentiality and Public Access in Civil Cases. The Sedona Conference[®] is a nonprofit law and policy think tank based in Sedona, Arizona, dedicated to the advanced study, and reasoned and just development, of the law in the areas of complex litigation, antitrust law and intellectual property rights. It established the Working Group Series (the “WGSSM”) to bring together some of the nation’s finest lawyers, consultants, academics and jurists to address current issue areas that are either ripe for solution or in need of a “boost” to advance law and policy. (See Appendix B for further information about The Sedona Conference[®] in general, and the WGSSM in particular). WGSSM output is first published in draft form and widely distributed for review, critique and comment, including, where possible, in-depth analysis at one of our dialogue-based Regular Season conferences. Following this public comment period, the draft is reviewed and revised, taking into consideration what has been learned during the peer review process. The Sedona Conference[®] hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law and policy, both as these are and ought to be.

The Sedona Conference[®] Working Group Addressing Protective Orders, Confidentiality and Public Access (POPA) was formed out of a desire to help bring some clarity and uniformity to practices involving protective orders in civil litigation, and determinations affecting public access to documents filed or referred to in court. It is hoped that the principles and commentary that follow will be of immediate benefit to the bench and bar as they approach matters relating to protective orders and public access. It is our expectation that we will benefit greatly from the public comment process. At various points throughout the document you will notice footnotes referencing opposing views set forth in a companion piece posted on our website. We are especially interested in your comments on these points.

I want to thank the entire Working Group for all their hard work, and especially the Co-Editors and Steering Committee who have guided this effort for the past year. We also want to note that the Working Groups of The Sedona Conference could not accomplish their goals without the financial support of their sponsors. This Working Group has been supported by the following sponsors for the last year - Founding Sponsor: Federal Bar Association Civil Litigation Section. Supporting Sponsors: Alston & Bird, Bingham McCutchen, Lockridge Grindal & Nauen, Mayer Brown Rowe & Maw, and Robinson & Cole.

To make suggestions or if you have any questions, or for further information about The Sedona Conference[®], its Conferences or Working Groups, please go to www.thesedonaconference.org or contact us at tsc@sedona.net.

Richard G. Braman
Executive Director
The Sedona Conference[®]
April 2005

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INTRODUCTION

In creating this document, the Working Group on Protective Orders, Confidentiality, and Public Access has wrestled with the inherent tensions that underlie the issue of public access to civil litigation. We live in an open and democratic society that depends upon an informed citizenry and public participation in government. Open public meetings laws and federal and state freedom of information laws, for example, facilitate such participation by providing citizens with a right of access to information concerning their government. Indeed, the First Amendment protects the freedom to assemble, listen, and receive information and thus “prohibits government from limiting the stock of information from which members of the public may draw.” *Richmond Newspapers, Inc. v. Virginia*, 448 U.S. 555, 575-80 (1980).

At the same time, our society places a high premium upon personal privacy and individual autonomy. Our Supreme Court has elevated some aspects of privacy to a constitutional (albeit rather amorphous) right. Our legislatures, both state and federal, struggle to protect privacy in this increasingly electronic information age. Moreover, our country has long valued entrepreneurial confidentiality as a key to social and material progress, promoting a “go west, young man” mind-set that values individual initiative, private enterprise, and technological innovation.

This inherent tension between public access to information about government activities and the desire to protect personal privacy and confidential information comes to a head in the debate concerning litigation confidentiality. As with the legislative and executive branches of government, our democratic society depends upon public participation in and access to the judicial process. Public access to judicial proceedings facilitates public monitoring of our publicly-created, staffed, and subsidized judicial system. Fair and open judicial proceedings and decisions encourage public confidence in and respect for the courts - a trust essential to continued support of the judiciary. A public eye on the litigation process can enhance fair and accurate fact-finding and decision-making. Perjury is deterred, witnesses may step forward, and judgments may be tempered with greater care and deliberation. A public trial also educates citizens about the justice system itself, as well as its workings in a particular case. Access to the courts both improves the operation of the judicial system and fuels the informed discussion essential to democracy.

Public access to civil lawsuits, however, casts light beyond the judicial process itself. Civil litigation frequently involves private disputes between non-governmental parties. Resolution or settlement of those disputes may entail disclosure of intimate personal or financial information. Trade secrets or confidential marketing, research, or commercial information may be at stake. Public access to the pretrial, trial or settlement stages of those cases thus might jeopardize legitimate privacy or proprietary interests of the litigants. Moreover, public access may hamstring the litigants' autonomy to resolve their dispute in a mutually agreed manner.

Do litigants give up a measure of their privacy and autonomy when they enter the doors of the public courthouse in order to resolve their dispute? How is a court to honor the right of public access to judicial proceedings while protecting privacy interests? In which cases must such private interests bow to a broader public interest? These are just some of the difficult questions considered by the Working Group in creating these Guidelines. Because resolution may hinge on the role public access plays in the functioning of the particular judicial process in question, *see Press-Enterprise Co. v. Superior Court*, 478 U.S. 1, 8-9 (1986), our analysis of access and confidentiality is organized around the varying stages of the litigation process.

CHAPTER 1.
PLEADINGS, COURT ORDERS, SUBSTANTIVE MOTIONS AND DOCKETS

Principle 1 The public has a qualified right of access to pleadings, motions, and any other papers submitted to a court on matters that affect the merits of a controversy that can only be overcome in compelling circumstances.

A qualified right or presumption of public access attaches to all documents filed with the court and material to the adjudication of all non-discovery matters. See *In re Cendant Corporation*, 260 F. 3d 183, 192-93 (3d Cir. 2001). To overcome the presumption, the proponent of any motion to seal documents or court proceedings to which the presumption attaches must demonstrate that there are compelling reasons for denying public access and no reasonable alternative.

Access to pleadings is essential to a public understanding of the nature of a case and issues raised therein. Pleadings provide the public with information on what is before the courts and allows the public to decide what cases to monitor. Courts of most jurisdictions recognize a right of access to other papers filed in civil proceedings as well, either under the common law or the First Amendment to the Constitution of the United States. Public access confers numerous benefits, including: (1) subjecting the judicial system to contemporaneous public scrutiny and rendering it more accountable; (2) encouraging better performance of their duties by participants in the system who are subject to such monitoring; (3) educating the public on the workings of the courts and the civil justice system; and (4) promoting public confidence in the system as a result of public knowledge that the system is subject to scrutiny and that any member of the public can have access to all information pertinent to adjudication.

Statutes and court rules recognize narrow situations in which pleadings must be kept confidential, at least for limited times and purposes. For example, under the *qui tam* provisions of the False Claims Act, 31 U.S.C. Sec. 3729 *et seq.*, a complaint of a private person must be filed *in camera* and remain sealed for at least 60 days, and the government may move *in camera* for an extension of the sealing. 31 U.S.C. Sec. 3730(b)(2) and (3). The purpose of the sealing requirement is to give the government an opportunity to review the complaint and determine whether to intervene. See *United States ex rel. Fine v. University of California*, 821 F. Supp. 1356, 1358 (N.D. Cal. 1993), *rev'd sub nom.*, *United States ex rel. Chevron U.S.A. Inc.*, 39 F. 3d 957 (9th Cir. 1994), *vacated en banc*, 60 F. 3d 525 (9th Cir 1995), *cert. denied*, 517 U.S. 1233 (1996). Similarly, the Trademark Counterfeiting Act of 1984, codified in relevant part at 15 U.S.C. Sec. 1116(d), provides that a court may, on *ex parte* application, issue a seizure order for goods and counterfeit marks, and that any such order, “together with the supporting documents,” shall be filed under seal, “until the person against whom the order is directed has an opportunity to contest such order...” 15 U.S.C. Sec. 1116(d)(8). The purpose of the sealing is to avoid the loss or concealment of the items to be seized. 15 U.S.C. Sec. 1116(d)(4)(B)(vii). In both statutory examples, sealing is for a specific purpose and a limited time.

There are some categories of cases that invariably involve information, the disclosure of which is discouraged as a matter of public policy. State legislatures have adopted statutes mandating that such categories of cases be closed to the public. See, e.g., Indiana Code Sec. 31-39-1-2 (records in juvenile proceedings); Maryland Code, State Gov't. Art., Sec. 10-616(b) (records in adoption and guardianship proceedings); Maryland Code, Art. 88A, Sec. 6(b) (records in child abuse or negligence proceedings); New York, Family Court Act, Sec. 166 (records of family court proceedings); New York, Domestic Relations Law, Sec. 235 (records in divorce, custody, and child support proceedings). Several state courts have, or are considering, court rules restricting remote access via the Internet in certain categories of cases. See, e.g., Indiana Administrative Rule 9(g); Maryland Rules 16-1006 and 16-1007; Vermont Rules for Public Access to Court Records, Sec. 6. The Judicial Conference of the United States has also determined that remote access via the Internet to at least one category of cases,

Social Security appeals, should be restricted. Report of the Judicial Conference Committee on Court Administration and Case Management on Privacy and Public Access to Electronic Case Files, September 2001.

In some situations, a viable alternative to the sealing of pleadings may be the use of fictitious names when there is a legitimate reason to litigate anonymously. However, like the sealing of pleadings, the use of fictitious names is disfavored and exceptional circumstances must be shown to do so. *See, Doe v. City of Chicago*, 360 F. 3d 667, 669-670 (7th Cir. 2004).

Many cases incidentally involve personal information, the public disclosure of which may violate recognized privacy rights or possibly expose litigants to identity theft or other abuse. In these cases, redaction of the personal identifiers from pleadings and other court papers protects the litigants' privacy interests while minimally affecting the public's qualified right of access to judicial records. Many courts, both state and federal, have adopted rules requiring that such personal identifiers be redacted from publicly accessible files.

Parties may have additional confidentiality interests that warrant redaction of particular information in otherwise public filings. Examples include property interests such as trade secrets and legally protected privacy interests such as medical or financial information. Such redaction cannot be made unilaterally by the litigant. A motion to allow redaction of information from otherwise public filings must be supported by the same compelling interest required for the sealing of a pleading.

A party may also believe it has compelling reasons to request an order allowing it to file an entire document with the court under seal. The party may be permitted to lodge the document with the court (a step short of filing the document) and file an appropriate motion to have the document sealed upon filing. Under such a procedure, the court and opposing parties have access to the document while the motion is under consideration, and the public has notice of the pending motion to file the document under seal, but the document has not been made public by virtue of filing.

No document should be filed under seal without statutory authority or express court permission, either by rule or order. Whenever a document has been filed under seal or information has been redacted beyond the requirements of a statute or rule, the court has an obligation to review the document at the earliest opportunity to determine whether continued confidentiality is justified. Any decision by the court to continue the confidentiality of the pleading must be based on specific findings that the interest in confidentiality overcomes the presumption of public access.

While private parties may utilize the courts to settle private disputes, the courts' business is public, with very narrow exceptions authorized by statute or rule. Before filing any pleading, an attorney should inform his or her client of the extent to which personal information will likely be made public, measures that can be taken to minimize the compromise of personal information, and possible alternatives to litigation.

Best Practices

1. Courts should promulgate or issue local rules, court-wide standing orders, or courtroom-specific standing orders to facilitate and expedite public access to all pleadings, substantive motions, orders, judgments, and supporting documents, and to provide for prompt determinations of motions to seal.
2. Before filing a pleading, an attorney should consult the law of the jurisdiction to determine what information may be recognized as confidential. At or before the commencement of litigation, the attorney should confer with his or her client to

determine whether any information that the attorney or the client considers to be confidential must be incorporated into the pleading, and should inform the client of what measures may be taken to maintain the confidentiality of that information.

3. An attorney should not attempt to seal a pleading, motion, or any supporting material unless he or she is satisfied (consistent with Fed. R. Civ. P. 11 or its state equivalents) that the attorney can demonstrate grounds for a sealing order.
4. Before attempting to seal a pleading, substantive motion, or any supporting material, an attorney should consider whether there is a legitimate and narrower alternative to sealing. For example, an attorney might consider the redaction of specific information, the use of “John Doe” pleadings, or the use of a sealed attachment containing the allegedly confidential information, allowing the non-confidential material to be openly filed.
5. Any sealing order should include written findings of fact and conclusions of law demonstrating what interests would be jeopardized by public access to the sealed material, the compelling need for confidentiality which outweighs the public’s interest in disclosure, that the sealing requested is no broader than necessary to meet that need effectively, the lesser restrictive alternatives considered by the court and why these were rejected. Absent the most extraordinary circumstances, sealing orders themselves should not be sealed.
6. In the event that a pleading or other document is filed under seal, the attorney who secures a sealing order and the judge who issues it should determine whether sealing is necessary only on a temporary basis. Whenever practicable, the sealing order should be framed to expire at the end of a specified period of time or the occurrence of a specified event. In the absence of a self-executing expiration, the attorney and the judge should monitor the litigation to ensure that the sealing order is vacated when the circumstances justifying the sealing order have changed.

Examples

1. A plaintiff files a trademark infringement action alleging that the defendant is manufacturing “knock off” products. The plaintiff seeks an *ex parte* seizure order, pursuant to statute, based on a showing that the defendant intends to transfer the products in issue to an unknown location or to destroy the products. The complaint, including the request for immediate relief, is filed under seal. The filing is accompanied by a proposed order to be endorsed by the judge, also filed under seal, stating that the complaint will be unsealed upon either the execution or the denial of the requested seizure order.
2. The exclusive midwestern distributor of a high value (and high profit) product of an East Coast manufacturer is engaged in a dispute with the manufacturer over the manufacturer’s alleged shoddy accounting practices. For several months the parties engaged in unsuccessful settlement negotiations, until the distributor finally filed suit. The plaintiff distributor requests that its attorney file the complaint under seal to avoid publicity and loss of good will. After review of the controlling law in the jurisdiction, the attorney determines that the plaintiff’s interest in avoiding publicity would not overcome the presumption of public access to the pleadings. The attorney informs the plaintiff that filing

under seal would not be advisable and reviews alternatives, including alternative dispute resolution.

3. Several members of a wealthy family, all beneficiaries under a trust, file suit against another family member who is the trustee. The plaintiffs allege that the defendant misappropriated trust assets. In the complaint, the plaintiffs set forth sensitive family information, such as the value of the trust, their respective shares of the trust assets, and the holdings of the trust. The plaintiffs' attorney prepares two versions of the complaint: one version in which the paragraphs containing the sensitive family information have been redacted, to which the public would have access, and another version of the complaint to be lodged with the court with a motion to seal.¹
4. A plaintiff who is HIV-positive brings suit against a dentist for refusal to treat him in violation of state law. The plaintiff is not known in his community as being HIV-positive. He files his complaint under the court's "John Doe" procedure, in which information that would identify him personally is removed from the version of the pleading to which the public has access. The version of the complaint containing identifying information is filed under seal. The judge issues an order that information identifying the plaintiff in all subsequent pleadings is to be redacted from publicly accessible versions, with unredacted versions filed under seal.

Principle 2 The public has a qualified right of access to court dockets as the principal indices to judicial proceedings and documents that can only be overcome in compelling circumstances.

The docket is the principal index of judicial proceedings. All the judicial business of the court should be noted on the docket. For each case, the individual docket should serve as a register of all activity and as an index of all documents—pleadings, appearances, the scheduling of hearings and trials, motions, orders, judgments, as well as miscellaneous items.

There is a presumption of public access to dockets. Access to the docket is the only effective means to determine if a particular case is being adjudicated. Access to individual case dockets is the only effective means to monitor the course of any particular case. Access to the docket is also the primary means for the public (including the media, academics, and civic groups) to monitor the overall performance of the courts and the administration of justice. The effectiveness of particular laws or court rules is often measured by analysis of court dockets. Moreover, legislative decisions regarding the allocation of resources to the judicial branch of government are based in large part on statistical analysis of docket activity.

Consistent with the law, certain court documents may be sealed and certain proceedings may be closed to the public. It does not follow, however, that corresponding dockets should be sealed, either in whole or in part. The existence of a case itself should never be kept secret, and whenever particular documents or proceedings are to be sealed, docket entries referencing that sealing should be made to give the public adequate notice.

Docket entries on rare occasions could reveal information that would jeopardize the privacy or confidentiality interests of parties involved. Statutes and court rules restrict public disclosure of particular types of information that might appear in docket entries, such as Social Security numbers

¹ An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference* web site at www.thesedonaconference.org.

or the names of minors. However, the restrictions imposed by such statutes and court rules should not necessitate the sealing of the docket itself.

Rare circumstances may justify the temporary redaction of particular information in docket entries to prevent the destruction of evidence or the loss of a remedy. A judge should state appropriate findings of fact and conclusions of law in a temporary order. Any such order should be noted on the docket and should expire by its own terms when the circumstances justifying the order have passed.

Many courts include narrative “minute entries” or summaries of proceedings directly on the docket when the proceeding generates no document. Clerks who compose such narrative entries should be careful not to include sensitive or confidential information explicitly restricted by statute, court rule, or order. A narrative entry that must be redacted or sealed should be composed as a separate document and placed in the case file, and an appropriate entry made on the docket.

Best Practices

1. The existence of a docket or a case should never be secret. Even if the merits of a case warrant confidentiality, the case must be assigned a docket number and a docket must be available to public access.
2. The identity of the judge to whom a case has been assigned should appear on the docket under all circumstances, as should the identity of counsel.
3. “Procedural” events should appear on the docket for public review. These include, for example, the nature of the case, the payment of the filing fee, and notations that motions have been made or affidavits filed.
4. There may be circumstances under which parts of individual docket entries should be sealed. If so, the existence of a sealing order based on findings of fact and conclusions of law should be reflected on the docket.
5. Care should be exercised to distinguish between situations in which a document or proceeding is sealed, and the extremely rare instances in which the corresponding docket entries should also be sealed.

Examples

1. A plaintiff seeks to file a trademark infringement action against a defendant and seeks an immediate *ex parte* seizure order. The plaintiff is aware that the defendant monitors the filing of suits against it. In conference with the judge, the plaintiff presents the complaint and the *ex parte* motion for a seizure order, arguing that if the defendant knows the existence of the litigation it will destroy or transfer the infringing products to an unknown location. Convinced that the standards for both the *ex parte* seizure order and a sealing order are met, the judge endorses the seizure order and dictates a temporary sealing order, reciting her findings of fact and conclusions of law. The complaint and orders are filed with the clerk, with instructions to assign the case a number and docket it with only the number, judge’s name, entries for a complaint and seizure order under seal, and an entry for a temporary sealing order. The temporary sealing order is set to expire upon execution of the seizure order or after a reasonable period of time.

2. An infant plaintiff, by his guardian, commences a declaratory judgment action against an insurer that issued a homeowners' policy to the infant plaintiff's grandfather. The infant alleges that, while visiting his grandfather's home on various occasions, he was sexually assaulted by the grandfather. The infant seeks a declaration that the grandfather's acts fall within the policy coverage. The case is assigned a "John Doe" plaintiff name, in accordance with local practice regarding the identity of minors. The insurance company is named as defendant. The docket includes the names of counsel and of the judge and routine procedural entries. The complaint appears on the docket with the notation "Under Seal," followed by an entry for the sealing order. The sealing order, which is not itself under seal, states that the judge, after reviewing the complaint and hearing from counsel, finds that the allegations in the complaint involve a minor and include matters of a sensitive and private nature, which should be confidential and protected from public disclosure by the court and counsel, in the best interests of the child.

3. A plaintiff in a patent infringement action has moved for summary judgment against the defendant. As part of that motion, the plaintiff has submitted the affidavit of an expert economist containing financial information that is proprietary to the plaintiff and which, if made public, would have adverse competitive effects on the plaintiff. The motion for summary judgment is filed and the affidavit is filed separately under seal. Both filings are noted in the docket, including the name of the affiant expert.

Principle 3 The public has a qualified right of access to judgments, judicial opinions and memoranda, and orders issued by a court that can only be overcome in compelling circumstances.

The public has a qualified right of access to judgments, judicial opinions and memoranda, and court orders. Public access to opinions and orders is essential to public understanding and monitoring of the judicial process. *See Republic of the Philippines v. Westinghouse Electric Corp.*, 949 F.2d 653 (3d Cir. 1991); *In re Continental Illinois Securities Litigation*, 732 F.2d 1303 (7th Cir. 1984). Access by the legal community to court opinions is essential to the development of the common law and *stare decisis*, which depends on the application of precedent as expressed in court orders, judgments, and the reasoning articulated in judicial opinions and memoranda. This right cannot be overcome absent a showing that some compelling interest requires confidentiality. Any restriction on access must be as narrow as possible to protect the interest at stake.

Courts and attorneys must balance the need for access with the legitimate interests of the parties in privacy and confidentiality. Court documents should be written with the presumption of public access in mind, and with the knowledge that the safety net of "practical obscurity" has, for all intents and purposes, been removed by technology. Judges and law clerks should not include unnecessary confidential information in their documents. Attorneys who submit proposed orders for a judge's signature should also exercise similar editorial judgment.

When information restricted by a statute or court rule must be included in a document, or when courts are presented with confidential information that must be incorporated in rulings, an unredacted version should be filed under seal and made available to the attorneys and parties in the case. A redacted version should be filed for public access, with an explanation of the reason for the redactions. The sealing of an entire document, or the filing of a redacted document under circumstances not addressed by a statute or court rule, must be based on a finding by the judge, available in the public record, that the necessity for restricting public access to the document in question overcomes the presumption of public access to judicial decisions.

Best Practices

1. Judges and law clerks should include in opinions and orders a full discussion of the facts relevant to their decisions, guided by the consideration that the purpose of opinions and orders is to provide to litigants, lawyers, the public, and appellate courts reasoned explanations for their decisions. While courts should avoid including information that is superfluous and the publication of which may be harmful to a litigant or a third party, courts should redact or seal information properly included in opinions and orders only where there is a compelling reason to do so.
2. When a court includes information restricted by statute, court rule, or an existing sealing order in an opinion or order, the court should issue both a redacted document, as to which there will be public access, and an unredacted document that will be filed under seal.²
3. If an opinion, memorandum, order, or judgment is to be sealed in part or in whole, the judge should set forth findings of fact and conclusions of law that should be available for public access, including the right deemed to be threatened by public access to the full opinion, the lesser restrictive alternatives to sealing the court considered, and why these were rejected.
4. The court should review its decision to seal an opinion, memorandum, or order, in part or in whole, periodically or upon the occurrence of specified events in the case to ensure that the sealing order is vacated if and when the circumstances justifying the sealing order have changed.

Examples

1. A business entity commences an action against a competitor for the theft of information utilized by the plaintiff in a manufacturing process. The plaintiff's manufacturing process is proprietary and is a closely guarded secret. For the purpose of ruling on a motion for summary judgment, the judge must compare both parties' manufacturing processes in an opinion. The judge files a brief summary judgment order for public access, together with a finding that the manufacturing process constitutes a legally protected trade secret and that public access to the accompanying opinion would compromise the plaintiff's legal interest. The opinion is filed under seal.
2. Same facts as Example 1 above, but the theft is alleged to have been committed by a former employee of the plaintiff who became employed by the defendant, and the defendant has not yet established its own manufacturing process. The relief sought by plaintiff is solely injunctive in nature. The judge, ruling on a motion for a preliminary injunction, addresses whether the former employee had access to plaintiff's information and the likelihood of the plaintiff's success on the merits of the case, but carefully avoids describing the information in detail in the opinion and order.
3. Same facts as Example 1 above, but the opinion issued by the judge totals thirty pages addressing a number of facts and legal issues, and the detailed comparison

² An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference' web site at www.thesedonaconference.org.

of the parties' manufacturing processes appears on only three pages. A sealing order covering all information about the manufacturing process, based on findings of fact and conclusions of law, is already in place in the case. The judge files the full opinion under seal and a redacted opinion, referencing the existing protective order, for public access.

4. An insurance broker brings an action against an insurer, alleging that she is owed commissions on the sale of the insurer's products, and that other brokers were paid at a higher rate than she was. During discovery, the parties stipulate to a protective order for the production of commissions paid by the defendant to other brokers. Both parties move for summary judgment and include in their papers the commissions paid to other brokers. In ruling on the motions, the judge does not treat the commission information as confidential, as the protective order applied only to non-filed discovery materials and no showing has been made to justify sealing.

Principle 4 The public should have appropriate notice of all motions to seal.

The public has a qualified right of access to all papers, including briefs, submitted in support of and in opposition to motions and filed with the court that address non-discovery matters. These papers may contain information that implicate legitimate privacy or confidentiality interests, or otherwise warrant redaction or sealing, and may be proper subjects for a protective or sealing order before filing. In the absence of court rules or orders specifying procedures for the filing of materials under seal, the parties themselves should agree to a procedure under which a party intending to publicly file papers or information which has been subject to a sealing or protective order, or intending to file under seal any new material, informs the other party in a timely manner of that intent, thus allowing the other party opportunity to object, consent, or confer on the appropriate confidentiality status of the material.

Some courts allow a procedure under which pleadings, motions, proposed orders, privileged documents, disputed evidence, or other material may be temporarily lodged (but not filed) with the court, providing a mechanism for making a docket entry notifying the court, other parties in the case, and the public of the existence of the material and the motion for a protective order or seal, without making the material itself subject to public access. The clerk's office and the court treat "lodged" material as though it has been filed under seal, but the court expeditiously determines whether the confidentiality interests asserted by any of the parties are sufficient to overcome the presumption that the material should be filed for public access.

Motions to seal documents should be rare and made only when there is no feasible alternative. As stated under Principle 1 above, attorneys should take reasonable steps to minimize the use of confidential information in motions, proposed orders, or briefs, so as to minimize the need to redact or seal such documents. The inclusion of attachments, such as discovery material produced under a protective order, should likewise be minimized, and when necessary, should be presented in such a manner as to facilitate the lodging of only the protected attachments, and not the whole document, pending resolution of a motion to seal. Care must be taken in doing so, however, as clerks' offices may encounter problems in segregating documents to be filed from those to be lodged.

Best Practices

1. Attorneys should minimize the number of papers requiring consideration of sealing or redaction by eliminating non-essential references to privileged, private, or confidential information and by segregating attachments or exhibits that may be subject to a protective or sealing order, and lodging these separately

from pleadings, substantive motions, and briefs that can otherwise be filed for public access.

2. Attorneys who intend to submit a motion discussing or attaching material designated by another as confidential or subject to seal should inform the designating party of their intent to discuss or file the material and ask the designating party to promptly respond and confirm whether that party continues to contend the material merits confidentiality. Discovery management agreements or protective orders should contain a provision for giving such notice and include a time limit to respond before such confidentiality designations will be deemed waived.
3. For cases in which the parties are unable to agree upon what, if any, information should be included in any public filing, and in all cases in which new pleadings, substantive motions, and accompanying materials are submitted with the intention of being filed under seal, the court should permit (by way of local rule, standing order, or in a protective order under Rule 26(c)) a party to temporarily lodge the material with the court, thereby providing notice to all parties of the intended action without compromising the purported private or confidential nature of the material itself, pending a prompt ruling on confidentiality.
4. Attorneys should take care to minimize the need for sealing by segregating the confidential material into an attachment or appendix or portion of a declaration. Every document sought to be sealed should be lodged in a format that highlights or otherwise indicates the specific information proposed to be redacted. In this fashion, the parties and the court can focus their attention on the confidential details and more efficiently determine what information, if any, merits sealing.
5. Attorneys should lodge, as an attachment to any motion to seal, unredacted and proposed redacted versions of all documents sought to be sealed. In the event a motion to seal is granted, the judge should consider the parties' proposed redactions and consider whether these are appropriate and within the narrow scope of the order. The court should order the approved redacted versions to be filed and subject to routine public access.
6. A judicial determination on a document-by-document basis is required for sealing.
7. If the volume of documents upon which the parties fail to agree is extraordinary, the court may refer the dispute to a special master under Fed. R. Civ. P. 53(b) or its state equivalents, and order the parties to defray the expense of that process.

Examples

1. A plaintiff intends to file a motion for summary judgment in fourteen days, which will include documents it obtained from the defendant through discovery and designated by the defendant as confidential under a stipulated protective order. The plaintiff informs the defendant of its intention to include specified documents in an upcoming filing and advises the defendant to file a motion to seal the material in advance of the filing date. If the defendant files the motion to seal, the plaintiff lodges its summary judgment motion and the accompanying documents with the court, pending a decision on the defendant's motion to seal. If the defendant does not move to seal in advance of the filing, the plaintiff

publicly files its summary judgment motion with the supporting documents, deeming the confidential designation to be waived.

2. The same facts as above, except that the plaintiff agrees that the documents merit sealing. The plaintiff drafts its summary judgment motion, brief, and supporting declarations, limiting its use of confidential material and reference to confidential facts. It lodges its motion and accompanying materials with the court along with a motion to seal, and submits a redacted copy of the summary judgment motion and brief intended for public filing. The court reviews the documents proposed to be sealed, the proposed redacted documents, and following a hearing, rules upon the motion to seal.

Principle 5 Any interested person should be permitted to intervene to obtain access to documents filed with a court.

Courts have recognized that the public has standing, and has grounds to intervene, to obtain access to documents filed with a court under seal. So too, non-parties who have an interest in privacy and confidentiality of materials filed with the court and available to the public may independently seek to seal such materials. When the parties agree to secrecy or limitations on disclosure based upon interests that may be narrower than those of third-party intervenors, the court is not likely to have the benefit of the adversary process in making its decision. Intervention should therefore be liberally granted, and non-parties should be afforded the opportunity to be heard on whether the presumption of access to filed documents has been overcome.

Motions to intervene raise distinct jurisdictional issues in two situations—first, involving the original trial court after a case has closed and second, involving an appellate court. The first situation assumes that the motion is made after the close of the litigation in which a sealing order was issued. The question is, does the issuing court retain jurisdiction to hear the motion and modify or vacate the order? In federal court, the answer is yes, as the court always retains jurisdiction over its own records. See *Gambale v. Deutsche Bank AG*, 377 F.3d 133 (2d Cir. 2004). In the second situation the question is, does an appellate court have jurisdiction to hear an appeal from a trial court order addressing a motion to intervene and to modify or vacate an order? There is a split of authority among the federal courts as to whether the proper “vehicle” for bringing such an appeal is a mandamus petition or an appeal under 28 U.S.C. Sec. 1291. See *Virginia Dept. of State Police v. Washington Post*, 386 F.3d 567, 574 n.4 (4th Cir. 2004); *United States v. McVeigh*, 119 F.3d 806, 809-810 (10th Cir. 1997); *Bank of America Nat’l Trust and Savings Ass’n v. Hotel Rittenhouse Assoc.*, 800 F.2d 339, 341 n.2 (3d Cir. 1986). However, as the Tenth Circuit observed in *McVeigh*, whatever the vehicle employed, “all circuits that have considered the issue have found appellate jurisdiction ... under one doctrine or the other.” 119 F.3d at 810.

Best Practices

1. Courts should establish reasonable procedures to give adequate notice to the public of motions to file documents under seal. The entry of the motion on the docket reasonably in advance of the hearing or decision provides adequate public notice. Courts in which the filings are made and the docket is managed electronically might elect to give notice on a public Web site.
2. Interested persons should be granted the right to intervene to oppose a sealing motion, and to revisit a sealing decision in a proceeding to which they had not been afforded notice and an opportunity to participate, or when changed circumstances merit modification.

3. Orders denying motions to intervene and denying motions to modify or vacate protective orders should be subject to immediate appellate review under the collateral order doctrine.

Examples

1. Company A wishes to file a motion for summary judgment including financial materials it obtained through discovery pursuant to a protective order. Company A files a motion to seal in advance of or concurrently with its motion for summary judgment. The allegedly confidential material is lodged with the court pending a decision on the motion to seal. The motion to seal and the lodging of the financial materials appear on the court docket. The local newspaper, which has been reporting on the case, moves to intervene to oppose Company A's motion to seal. The motion to intervene should be granted.
2. Same facts as in Example 1, and Company A obtains the order sealing material in connection with its summary judgment motion. Several months later a litigant in another action involving Company A discovers the sealing order and believes that the subject financial materials are relevant to the new action. The litigant's attorney moves to intervene and unseal the records. The motion to intervene should be granted.

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A full bibliography, updated periodically, may be found on The Sedona Conference® web site at www.thesedonaconference.org

CHAPTER 2. DISCOVERY

Principle 1 **There is no presumed right of the public to participate in the discovery process or to have access to the fruits of discovery that are not submitted to the court.**

The American federal civil litigation system is premised on the just, speedy and inexpensive resolution of disputes. Fed. R. Civ. P. 1. The scope of discovery under the Federal Rules of Civil Procedure is intended to be broad. Parties may obtain discovery regarding any matter, not privileged, that is relevant to the claim or defense of any party, and for good cause shown, may obtain broader discovery relevant to the subject matter of the dispute. The information requested and produced during the discovery phase of civil litigation “need not be admissible at trial if [it] appears reasonably calculated to lead to the discovery of admissible evidence.” Fed. R. Civ. P. 26(b)(1).

Unlike the civil law system in Europe and elsewhere, in the American civil litigation system the parties themselves develop the facts they need for trial through the discovery process outlined in the Federal Rules of Civil Procedure and state equivalents. The court does not usually involve itself in the conduct of civil discovery, although it enforces procedural rules and may be called upon to decide discovery disputes. Generally, the fruits of discovery (documents, answers to interrogatories, deposition testimony, etc.) are not filed unless these are being used as evidence, either at trial or in connection with a discovery dispute or other pre-trial proceeding, or unless the court orders that these be filed. Fed. R. Civ. P. 5(d).

Pretrial discovery that is exchanged between the parties is not a public component of a civil trial. *See, e.g., Seattle Times Co. v. Rhinehart*, 467 U.S. 20, 33 (1984) (“pretrial depositions and interrogatories are not public components of a civil trial . . . and, in general, they are conducted in private as a matter of modern practice”). There is thus no presumed right of public access to the discovery process or the fruits of discovery in the hands of a party. However, as discussed below, a party has the right to disclose voluntarily any information received during discovery unless the party has agreed otherwise or the court, upon a showing of good cause, enters a protective order pursuant to Fed. R. Civ. P. 26(c) or its state equivalents.

Best Practices

1. Attorneys should cooperate in efficiently exchanging discovery in civil litigation. Such cooperation includes an early, full discussion of the scope of discovery and the treatment of potentially discoverable materials that the parties deem confidential or private, to avoid later pre-trial litigation of this issue.
2. A party may object to the discovery of otherwise relevant and non-privileged information it claims is confidential or private, but such objection should be the basis for negotiation with the requesting party over the procedure for producing the requested discovery to protect legitimate confidentiality and privacy interests, or a prompt application to the court for a protective order under Fed. R. Civ. P. 26(c) or its state equivalents.³
3. Likewise, while a party has the right to disclose information freely obtained during discovery, a party should not use the threat of exposure of confidential or private information obtained during discovery as leverage in a lawsuit.⁴

³ An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference® web site at www.thosedonaconference.org.

⁴ An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference® web site at www.thosedonaconference.org.

Examples

1. The attorneys representing the parties in a class action race discrimination lawsuit against a large corporation meet pursuant to Fed. R. Civ. P. 26(f) and map out the discovery phase of the litigation. The lawsuit alleges discrimination in pay and promotions throughout the company. It is anticipated that the plaintiff will serve a broad discovery request seeking current and historical information regarding employee pay and promotions. It is also anticipated that the defendant will object to public disclosure of employee pay, citing employee morale and competitive interests. The attorneys negotiate a procedure for the production of the relevant information in bulk form, redacting any “personal identifiers” in the data, and enter into a confidentiality agreement.
2. Same facts as Example 1, but the attorneys did not meet or enter into any confidentiality agreement. The plaintiff serves its discovery request, as anticipated, and the defendant objects. Under the court’s rules, the attorneys must attempt to resolve discovery disputes before filing any motions. During the required meeting, the defendant flatly refuses to produce the requested data, and the plaintiff threatens to obtain the data from other sources and publish the data on the Internet. The plaintiff then moves to compel discovery and the defendant counter-moves for a protective order. Three months and several hundred billable hours later, the court grants both motions in part, fashioning a protective order similar to that reached voluntarily in Example 1.

Principle 2 A litigant has the right to disclose the fruits of discovery to non-parties, absent an agreement between the parties or an order based on a showing of good cause.

Absent an agreement between the parties or an order to the contrary, a party is free to share the fruits of discovery obtained during litigation with others who are not parties to the lawsuit. *Harris v. Amoco Prod. Co.*, 768 F.2d 669, 683-84 (5th Cir. 1985).

In some cases, however, a party has legitimate reasons to limit the dissemination of certain information exchanged in the normal course of discovery. Because broad discovery is generally allowed, and given the nature of certain disputes in the civil justice system, the rules of discovery often require disclosure of sensitive, confidential information involving matrimonial, financial, medical or family matters, or in commercial cases, trade secrets and other confidential business information.

In order to facilitate the efficient exchange of information during discovery, parties may enter into agreements or stipulations designed to maintain the confidentiality of material produced during discovery. Because of practical limitations on the enforcement of such private agreements, parties often seek the court’s *imprimatur* on such agreements through the use of protective orders under Fed. R. Civ. P. 26(c). By practical necessity, these orders are often entered without judicial assessment of the specific documents or information the disclosure of which will be limited by the protective order.

In determining whether good cause exists to issue or uphold a protective order under Fed. R. Civ. P. 26(c), a court is required to balance the parties’ asserted interest in privacy or confidentiality against the public interest in disclosure of information of legitimate public concern. *Pansy v. Borough of Stroudsburg*, 23 F.3d 772, 786 (3d Cir. 1994). Judicial restraints placed only upon the disclosure and use of information exchanged in discovery do not restrict “a traditionally public source of information,” *Seattle Times Co. v. Rhinehart*, 467 U.S. at 33. Therefore, given that the public shares the parties’ interest in a judicial system that can efficiently resolve disputes, the good cause standard

generally should be considered to be satisfied as long as the parties can articulate a legitimate need for privacy or confidentiality, in those instances where the protective order will apply only to the disclosure of information exchanged during discovery. Because of the limited scope and provisional nature of the protective order, the court need not conduct a detailed evidentiary inquiry into the nature of the information at issue, which courts are sometimes unwilling or often practically unable to do, where much or all of the information at issue may not ever be used in connection with the determination of the merits of the dispute. However, a protective order entered as a discovery management tool, without specific consideration of the material at issue, should be considered to be provisional in that it is subject to future challenge by any party, including an intervenor, and subject to modification by the court.⁵

Best Practices

1. Attorneys and parties should be aware that, absent an agreement or order issued upon a showing of good cause, there is no restriction on dissemination of documents and other information exchanged during discovery. If this *status quo* is not acceptable, the party seeking restrictions on dissemination of the fruits of discovery should approach the opposing party as soon as it becomes apparent that some type of restriction on dissemination is necessary.
2. A protective order restricting dissemination of information produced during discovery should not be the default position for all litigation. Attorneys should assess in each case whether an order is truly necessary.
3. Attorneys should avoid excessive and unjustified designation of documents as “confidential” under a protective order. The common practice of designating entire document productions as “confidential” should be discouraged.
4. A protective order entered without a specific evidentiary determination by the court should permit the party receiving the “confidential” information to challenge that designation at any time through notice to the producing party that the designation is challenged as to particular information as to particular documents or information. Receipt of such notice should require the producing party to promptly seek protection and to prove that the particular information qualifies for judicial protection, or the designation is waived.
5. Attorneys and parties should periodically re-examine confidentiality designations made during discovery and determine whether such designations remain necessary for the documents and material upon which these were imposed.

Examples

1. Using the race discrimination lawsuit example outlined under Principle 1 above, at the same time the attorney representing the corporate defendant notifies the attorney representing the plaintiff that she is willing to produce her client’s payroll and promotion database, she states that it contains private financial information on the employees of her client. She says she will only produce this database if the plaintiff’s counsel is agreeable to enter a protective order. The plaintiff’s attorney agrees and they negotiate a protective order which:

⁵ An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference’ web site at www.thesedonaconference.org.

- a. defines the information and documents it will protect, encompassing the type of information that could upon proof be the appropriate subject of a protective order;
- b. establishes a procedure whereby plaintiff's attorney may notify defendant's counsel if she believes that certain documents designated as "confidential" by the defendant should not be treated as such; and
- c. provides that within a specified period after being notified of plaintiff's counsel's objection to certain confidentiality designations, if defendant's counsel wishes to maintain the confidentiality of the challenged documents, the defendant's counsel must seek a protective order pursuant to Fed. R. Civ. P. 26(c). The protective order makes clear that the court is to make a *de novo* determination of whether there is good cause to restrict the dissemination of the challenged information.

Principle 3 A broad protective order entered under Fed. R. Civ. P 26(c) to facilitate the exchange of discovery materials does not substitute for the individualized judicial determination necessary for sealing such material, if filed with the court on a non-discovery matter.

Protective orders sometimes purport to do more than restrict the parties from sharing the fruits of discovery. They often include a provision allowing materials deemed "confidential" to be filed with the court under seal without any further order. Such an agreement between the parties may be appealing. Courts are understandably disinclined to interfere with a matter agreed upon by the parties, particularly considering the court's limited time and resources. However, no agreement between the parties should substitute for the individualized and particularized showing that must be made before any materials are filed under seal, at least for non-discovery purposes. Moreover, given the presumption of public access to filed materials, that showing must be able to be made under the stricter standards described in Principle 1 above rather than the "good cause" standard of Fed. R. Civ. P. 26(c) used for the issuance of protective orders.

Although protective orders with "sealing" provisions appear to be common, virtually all of the Circuits have questioned the enforceability of protective orders that serve to seal material filed with the court, primarily because such sealing implicates the public's qualified right of access to court records. For example, according to the Third Circuit, "[T]he burden of justifying the confidentiality of each and every document sought to be covered by a protective order remains on the party seeking the protective order; any other conclusion would turn Rule 26(c) on its head." *Laucadia, Inc. v. Applied Extrusion Techs., Inc.*, 998 F.2d 157, 166 (3d Cir. 1993). Similarly, the Sixth Circuit held that protective orders under Fed. R. Civ. P. 26(c) authorizing the sealing of documents that either party "considers ... to be of a confidential nature" is facially overbroad. *Proctor & Gamble Co. v. Bankers Trust Co.*, 78 F.3d 219, 227 (6th Cir. 1996).

Protective orders must not confuse the confidentiality of material produced in discovery with the filing of such materials under seal for non-discovery purposes. In cases with large quantities of material to be produced in discovery, a threshold showing of "good cause" over broad categories of material may be sufficient for the issuance of a protective order under Fed. R. Civ. P. 26(c). The purpose of the order would be to facilitate the cooperative exchange of voluminous discovery. The question that must then be addressed is how the court treats this material when a party attempts to file it for non-discovery purposes (for example, as an attachment to a summary judgment motion).

The common practice of drafting protective orders to cover both the exchange of documents in discovery and the filing of documents with the court would better conform with the legal standard

if such protective orders were: (1) narrowly drafted; (2) kept the burden on the designating party to demonstrate good cause whenever the need for confidentiality is questioned; and (3) provided a procedure to establish a proper basis for sealing at the time the material is actually filed with the court for any purpose other than a discovery dispute.

Best Practices 2 and 3 below describe procedures that may be employed in protective orders to reconcile the presumption of a public right of access with the conservation of party and judicial resources. No procedures, however, should provide for the mass filing of whole categories of material under seal, as the court must make a document-by-document determination.

Best Practices

1. Attorneys should advise their clients at the outset that a protective order entered without a specific evidentiary showing only restricts the dissemination of documents and information so long as the need for confidentiality is not challenged by another party or by an intervening third party and so long as the information does not need to be filed in court or used as evidence at trial. In other words, the party wishing to prevent the dissemination of information may eventually be required to prove the basis for protecting specific information, even if not required to do so at the time the information is produced.
2. Protective orders entered without specific evidentiary findings should provide a mechanism to establish whether information designated as confidential should be sealed if filed with the court. For instance, such an order could provide that a party lodge a protected document with the court pending a motion to seal from the designating party. If the designating party files a motion to seal the court record within a reasonable period of time, an evidentiary determination is then made as to whether the particular information should remain under seal. The fact that information was designated as confidential pursuant to the protective order should not be considered in determining that the information should be sealed in connection with a determination on the merits. Failure by the designating party to file a motion to seal or otherwise oppose the filing of a protected document should constitute a waiver.
3. As an alternative to the practice outlined above, the parties could agree in the protective order to provide reasonable notice to the designating party that it intends to file documents designated as confidential in court. The designating party must move within a reasonable period of time to have the specific documents sealed. Again, a judicial determination must be made as to whether the sealing of the particular records is warranted.

Examples

1. In the class action race discrimination lawsuit outlined under Principle 1 above and the protective order discussed as an example under Principle 2 above, the plaintiffs' counsel intends to file the payroll and promotion database which has been designated as confidential as an exhibit to her papers in opposition to a Motion for Summary Judgment. Pursuant to the terms of the order, plaintiff's counsel notifies defendant's counsel in advance of the filing that the designation is challenged, triggering the defendant's obligation to file a motion for protective order with respect to the challenged information. Alternatively, plaintiff's counsel simply lodges the payroll and production database with the opposition papers, likewise triggering such obligation.

2. Using the above example, plaintiff's counsel also notifies defendant's counsel that she will be filing pages from one of defendant's outdated employee handbooks in connection with his opposition to the summary judgment motion. These pages had been designated as confidential pursuant to the protective order. Defendant's counsel decides that it is not necessary to seek to have this outdated information sealed. Plaintiff's counsel is permitted to file the information in open court, and the confidentiality designation with respect to that information is waived.

Principle 4 On a proper showing, non-parties should be permitted to intervene to challenge a protective order that limits disclosure of otherwise discoverable information.

Most courts that have considered the question hold that the media, public interest groups, and other third-parties have standing to intervene in a civil case for the limited purposes of opposing or seeking modification or rescission of a protective order entered pursuant to Fed. Rule Civ. P. 26(c) when they assert that the public interest is served by disclosure. *See Grove Fresh Distributors v. Everfresh Juice Co.*, 24 F.3d 893, 896 (7th Cir. 1994); *Pansy v. Borough of Stroudsburg*, 23 F.3d 772, 777 (3d Cir. 1994); *In re Alexander Grant & Co. Litigation*, 820 F.2d 352, 354-55 (11th Cir. 1987); *CBS v. Young*, 522 F.2d 234, 237-38 (6th Cir. 1975). Courts have found standing without any showing that persons subject to an order limiting disclosure of discovery materials would be willing to disclose absent the protective order; rather, the cases presume that since the only practical effect of the protective order is to prevent an otherwise willing speaker from communicating to a willing listener, the party seeking to intervene meets the redressible injury requirement of standing simply because the order impedes "the news agencies' ability to discover newsworthy information from potential speakers." *Davis v. East Baton Rouge Parish School Board*, 78 F. 3d 920, 927 (5th Cir. 1996).⁶

A party involved in parallel or subsequent litigation should be permitted to present arguments that a protective order should be modified to allow it access to the allegedly confidential documents. A court deciding whether its protective order should be modified to allow a party to such litigation access to documents should consider the standards of relevance and efficiency articulated in Fed. R. Civ. P. 26, including considerations of annoyance, embarrassment, and oppression under Fed. R. Civ. P. 26(c). However, the public disclosure of information of a private or sensitive nature in one lawsuit should not necessarily subject a party to repeated disclosure of the same information in subsequent litigation, if there is good cause for protecting it from disclosure.

The courts are in disagreement as to the burden of proof, when motions to modify or vacate an existing protective order are made. One standard provides that, assuming the order to have been validly entered in the first instance, the moving party must show sufficient reasons to release the protected information. *See Phillips v. General Motors Corp.*, 307 F.3d 1206, 1213 (9th Cir. 2002). Another approach leaves the burden of proof on the party that sought the order in the first instance to justify continued confidentiality, but adds reliance on the existing order as a factor to be considered. *See Pansy v. Borough of Stroudsburg*, 23 F.3d 772, 789-90 (3d Cir. 1994).

Best Practices

1. When intervention is allowed to oppose a motion for protective order that has not yet been entered, or for purposes of challenging a general protective order, the court should consider and balance the public interest in the disclosure sought, the legitimate privacy interests that favor non-disclosure, and the extent

⁶ An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference's web site at www.thosedonaconference.org.

to which the information is relevant to the controversy. The party seeking to limit disclosure has the burden of demonstrating that the balance of interests satisfies the “good cause” standard of Fed. R. Civ. P. 26(c).

2. If a protective order has already been entered after full consideration of the merits, including a review of the contents of the documents that are prohibited from disclosure under the order, the intervenor should be required to demonstrate circumstances or considerations not already considered by the court.⁷
3. In situations where third party intervention can reasonably be anticipated, confidentiality agreements between the parties, whether or not they are framed as court orders, should contemplate procedures to follow if a party receives a subpoena or order to compel production of protected information from parallel or subsequent litigation. Agreements should also include provisions that expressly allow parties to provide materials to requesting regulatory agencies that offer appropriate protection for confidential materials.
4. When collateral litigants intervene, the issuing court “should satisfy itself that the protected discovery is sufficiently relevant to the collateral litigation that a substantial amount of duplicative discovery will be avoided...” *Foltz v. State Farm Mutual Automobile Ins. Co.*, 331 F.3d 1122, 1132 (9th Cir. 2003). The court should balance this policy of avoiding duplicative discovery against the countervailing interests of the parties opposing modification, including their reasonable reliance on the order’s nondisclosure provisions. In many cases, any legitimate interest in continued secrecy can be accommodated by placing the collateral litigants under the use and non-disclosure restrictions of the original protective order. Modification merely removes the impediment of the protective order in the collateral litigation. The collateral court retains authority to determine the ultimate discoverability of, and the protection to be afforded to, specific materials in the collateral proceedings. *Foltz*, 331 F. 3d at 1133.

Examples

1. Using the example of the class action race discrimination lawsuit discussed under Principle 1, a class member has opted out of the class and is pursuing an individual race discrimination lawsuit against the same defendant in another jurisdiction. The attorney for the opt-out plaintiff calls the attorney representing the plaintiff class and asks him to send a copy of the payroll and promotion database that defendant produced in the class action. However, this has been designated confidential, so class plaintiffs’ counsel cannot provide the database to the attorney for the opt-out plaintiff.
2. In the same case as above, the attorney for the opt-out plaintiff serves a Fed. R. Civ. P. 45 subpoena on the attorney for the plaintiff class seeking production of all documents produced by defendant in the class action. But counsel for the plaintiff class is under a court order not to disseminate the confidential material produced by defendant. The protective order provides that class plaintiffs’ counsel tenders the subpoena to defendant’s counsel, who is obligated by the protective order to defend the protective order and oppose the subpoena, negotiate an extension of the protective order, or waive protection.

⁷ An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference web site at www.TheSedonaConference.com.

3. In the same case as above, because the opt-out plaintiff's lawsuit involves allegations similar to those involved in the class action, and direct discovery requests for the information would be inevitable, defendant's counsel agrees that the material can be produced to the opt-out plaintiff so long as he is willing to enter a similar protective order.
4. In a toxic tort case, a protective order is entered at the commencement of discovery. After significant discovery has taken place, a member of the news media moves to intervene, asserting that the general public has a legitimate interest in documents or information exchanged during discovery. If the court determines that a colorable public interest has been asserted, intervention should be allowed.
5. Assume the same facts as stated above in Example 4, except that the parties fail to agree upon a stipulated protective order and one party moves for entry of such an order pursuant to Fed. R. Civ. P. 26(c). The media, asserting the public interest, should be permitted to intervene and be heard in opposition to the motion. The party asserting confidentiality bears the burden of proving that an order should issue under Fed. R. Civ. P. 26(c).
6. Assume the same facts as stated in Example 4, except that the parties failed to agree on a stipulated protective order and one party moved for the entry of an order pursuant to Fed. R. Civ. P. 26(c). The judge ruled on the motion and issues an order, making appropriate findings of fact and conclusions of law. At a later date, the news media intervene seeking access to documents subject to the order. The intervenors bear the burden of coming forward with evidence sufficient to overcome the initial presumption that the existing order remain in place, although the original proponent bears the ultimate burden of persuasion that the order continues to be necessary and narrowly tailored to protect legitimate privacy and confidentiality interests.

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CHAPTER 3. TRIALS

Principle 1 The public has a qualified right of access to trials that can only be overcome in compelling circumstances.

Public access to trials on the merits, both jury and nonjury, reflects a long tradition in the United States. Trials have long been considered open to the public. Public access to trials is essential to the monitoring and oversight of the judicial process. Public access also allows the public to share the “communal” experience of the trial. Constitutional and common law rights of access compel the conclusion that trials are at the heart of the right of public access both for historical reasons and to vindicate concerns for the legitimacy and accountability of the judicial system.

Legitimate interests do exist that can justify narrow restrictions on public access to trials. For example, governmental interests exist in protecting certain types of information, such as those pertaining to classified national security information, undercover operations, and confidential informants. Privacy interests, such as those related to juveniles and to sensitive medical information, may justify limited trial closure in some contexts. Property interests also exist which may warrant restrictions, such as those related to trade secrets. Moreover, the judicial system itself may, as an institution, require a limited restriction on immediate public access for purposes of, for example, “sidebar” conferences.

The United States Supreme Court has established a right of public access to criminal trials derived from the First Amendment. The Court has also established standards that govern any restriction to public access to criminal trials. See, e.g., *Press-Enterprise Co. v. Superior Court*, 464 U.S. 501, 508-510 (1984); *Globe Newspaper Co. v. Superior Court*, 457 U.S. 596, 606-607 (1982). The same considerations should apply to civil trials. A party seeking to restrict public access to a trial should demonstrate a substantial likelihood that a compelling interest will be prejudiced by allowing public access and also show that no alternative other than closure can adequately protect the threatened interest. Any restriction on public access ordered by the court should be narrowly tailored—no broader than necessary to protect the compelling interest—and effective. The trial court should also make findings of fact and conclusions of law adequate to justify the closure.

Best Practices

1. Closure of a civil trial on the merits is extraordinary and should be permitted only in rare circumstances where compelling interests leave no alternative.
2. Any closure must be no broader than absolutely necessary, and should be strictly limited to that portion of the trial that requires closure.
3. Alternatives to complete closure should be employed whenever possible. For example, counsel and witnesses may be directed to avoid references to particular facts or subjects (if such a direction will not deprive a party of the right to a fair trial) or, if a witness has a legitimate privacy interest justifying protection of his or her identity, testimony may be taken anonymously.
4. If closure is necessary, the court should consider providing access through other means (such as providing the public with a prompt transcript) if this can be done without compromising the compelling interest that required closure.
5. Courts should require parties who anticipate that closure of a portion of a trial may be necessary to raise the issue through a written motion in advance of trial, to allow the court ample time for consideration, and to permit the full

- exploration of alternatives to closure (such as orders precluding references to certain matters and/or providing for substitutes for evidence that implicates confidentiality concerns). Such a closure motion should be heard at a hearing duly noticed and open to the public. The hearing on the motion should be recorded or transcribed.
6. Any order of closure should be based on a complete statement of the reasons for closure and of the findings of fact that support the closure order, in sufficient detail to allow appellate review. The order should including express findings identifying the compelling interest that requires closure and the reasons that less restrictive alternatives are insufficient.
 7. If the interest that led to closure loses its compelling importance with the passage of time, the transcript of the closed portion of the trial should be made available to the public.
 8. Courts should provide as much advance public notice of consideration of a motion to close a trial as practicable, in order to allow opposition to closure. Absent the most exigent circumstances, courts should deny any request for closure that is not made in time to allow such notice.
 9. Courts should freely allow nonparties who oppose closure to submit papers and make arguments responding to any closure motion. Intervention should be liberally granted for this purpose.
 10. The need to hold certain brief discussions during the course of a trial outside the hearing of the jury under circumstances where it is impractical to excuse the jury from the courtroom justifies the use of “sidebar” conferences that are also inaudible to the public. Because such conferences involve the discussion and resolution of procedural and substantive issues integral to the conduct of the trial, however, these should remain subject to the right of public access and, absent compelling justification, transcripts of such proceedings should be promptly made available to the public (subject to whatever protections are necessary to keep matters from coming to the attention of the jury).
 11. Conferences in chambers are occasionally used to address matters that arise in the course of a trial. Because it is not practical to admit the public to in-chambers conferences, their use to address the merits of procedural and substantive issues (as opposed to, for example, scheduling matters or other routine discussions of no genuine public interest) should be avoided unless there are compelling circumstances that justify exclusion of the public (for example, where the subject under discussion involves a jury issue that implicates protected privacy rights of a juror). If procedural or substantive issues are discussed in chambers, the proceedings should be recorded, and transcripts should be promptly made available to the public (unless, again, compelling circumstances justify confidentiality). In-chambers proceedings should never be used to prevent public access to trial proceedings that could not be closed to the public if they took place in a courtroom.
 12. Any closed trial proceedings must be transcribed or recorded in the same manner as open proceedings, so that access may be provided if the closure order is later reversed, or if the interests that require closure are later waived or no longer require protection.

Examples

1. On the first day of trial, the attorney for the plaintiff makes an oral application to the court to seal the trial, contending that his client might be embarrassed by public disclosure of “private facts.” No notice of this motion appears on the public docket. The attorney presents no facts to support the likelihood, nature, or extent of the damage his client would suffer by the public disclosure of the “private facts,” and the attorney does not present any reasons why a less restrictive alternative to sealing the trial would not satisfy the concern (for instance, sealing only particular testimony or evidence). Based on these deficiencies, the court denies the application.
2. Consistent with the local rules of the court, a plaintiff files a motion to seal expert testimony that will be offered by both parties in a patent infringement trial. The experts will testify on the damages sought by the plaintiff, and their testimony will be premised on financial data held confidential by the plaintiff. The plaintiff submits an affidavit with its motion, which explains the nature of the data and why it is confidential. The affidavit also explains the competitive harm that will be visited on the plaintiff if the data becomes public. The court hears the motion, makes findings of fact and conclusions of law, and holds that specified portions of the experts’ testimony revealing the financial data will be sealed. The court’s ruling is filed for public review.

Principle 2 The public has a qualified right of access to jury selection.

There is a presumption of public access to the jury selection process. Public access to the jury selection process promotes fairness by allowing the public to verify the impartiality of jurors, who are key participants in the administration of justice. Moreover, public access enhances public confidence in the outcome of a trial because public access assures those who are not attending that others may observe the trial. Public access also vindicates the societal concern that wrongdoers are brought to justice by individuals who are fairly selected to be jurors. Consistent with these concerns, courts should not conceal from the public sensitive information that might bear on the ability of jurors to impartially decide the matter before them. Thus, public access fosters discussion of government affairs by protecting the full and free flow of information to the public.

There has been a trend in recent years for trial courts to close the jury selection process, deny access to juror questionnaires, empanel anonymous juries, and prohibit post-verdict interviews, particularly in high profile criminal cases that attract intense public scrutiny. This trend has been accelerated with increasing public interest in all trials, civil or criminal, evidenced by phenomena such as television networks that are devoted to broadcasting judicial proceedings.

Various interests are cited in opposition to public access to juror selection. These interests include juror privacy, protection of the integrity of the jury system, and avoiding a circus-like atmosphere. These interests are problematical. There may well be circumstances where some restriction to public access is necessary to ensure the safety or well-being of individual jurors, but the mere fact that a trial may be the subject of intense media coverage is insufficient to justify deny public access to of the jury selection process. This would render the right of access meaningless: The very demand for openness would defeat its availability. Thus, personal preferences of jurors, a judge’s unwillingness to expose jurors to press interviews, and the judge’s fear that jurors may disclose what transpired during the deliberations do not, in themselves, warrant anonymous juries or restrictions on public access.

Beyond the scope of jury selection, but relevant to the subject of juries and public access, the qualified right of public access does not extend to the deliberations of jurors, which traditionally occur in secret. In the case of jury deliberations, that secrecy is reinforced by substantive evidentiary rules that prevent jury verdicts from being impeached by testimony concerning the jury's internal deliberations in most instances. However, in cases in which the conduct (or misconduct) of the jury itself becomes an issue that is the subject of testimony and/or other proceedings before a court, such proceedings, like other trial proceedings, are subject to the right of public access and should remain confidential only if compelling reasons (such as legitimate interests in juror privacy or in protecting a criminal investigation) justify confidentiality. Concealing a juror's misconduct is not by itself a legitimate privacy concern. While a court may take steps to prevent remaining jurors from being tainted by such proceedings, that is not in itself a reason for denying public access; rather, the steps to be taken should be similar to those used by the court to prevent jurors from having access to other possibly prejudicial information about a case (*i.e.*, instructions to avoid news coverage or, in some cases, sequestration).

Courts may limit an attorney's or party litigant's ability to interview jurors regarding their verdict or deliberations. In addition, courts may require a showing of good cause before allowing post-verdict interviews of jurors by attorneys or litigants. Such orders do not themselves implicate the public's right of access to any public information, but only constrain the behavior of lawyers and litigants. However, the court should not limit a juror's right to speak to the media or other members of the public after the conclusion of a trial.

Best Practices

1. Empanelling an anonymous jury or closing jury voir dire ("jury secrecy" procedures) are extraordinary and should be undertaken only in rare circumstances where exceptionally important interests leave a trial court with no practical alternative. Although such circumstances have sometimes been found to exist in criminal cases (especially ones involving organized crime), it would be extremely rare for such circumstances to be present in a civil case. If initial questioning of jurors is conducted through written questionnaires, these should be available to the public.
2. Any jury secrecy order should be no broader than absolutely necessary, should be strictly limited to highly personal juror information that requires protection, and should depend on the affirmative request of an individual juror.
3. Alternatives to jury secrecy should be employed whenever possible.
4. If jury secrecy is necessary, a trial court should provide access through other means (*i.e.*, a transcript) if this could be done without compromising the overriding interest that required secrecy in the first place.
5. If the interest that led to jury secrecy loses its overriding importance with the passage of time, a transcript of the closed portion of the jury proceeding or the names of anonymous jurors should be made available to the public at the earliest possible time. Stronger reasons to withhold juror names and addresses (such as jury tampering) normally exist during trial than after a verdict is rendered.
6. Trial courts should require parties who anticipate that jury secrecy may be necessary to raise the issue through written motions, to allow a trial court ample time for consideration and to permit the full exploration of alternatives to secrecy (such as change of venue). Such motions should be heard at a hearing duly noticed and open to the public.

7. Courts should freely allow nonparties who oppose jury secrecy to submit papers and make arguments addressing any secrecy motion. Intervention should be liberally granted for this purpose.
8. Any order of jury secrecy should be based on findings of fact that support the secrecy order, including express findings identifying the compelling interests that require secrecy and the reasons that less restrictive alternatives are insufficient.
9. Jury secrecy orders, while appearing to be interlocutory in nature, should be appealable under the collateral order doctrine.
10. Any closed jury proceeding should be recorded and transcribed, so that access may be provided if the secrecy order is later reversed, or if the interests that require secrecy are later waived or no longer require protection.

Examples

1. During the jury selection process in a civil action brought by a government agency against a well-known entertainer, the defendant approaches the court and requests that the *voir dire* be sealed. The defendant's argument is that juror candor in answering questions will be compromised by the attendance of the press. The court denies the motion for several reasons. First, no advance (and public) notice was given that the request would be made. Second, the court rejects the proposition that candor might be compromised, noting that the application is solely premised on the defendant's celebrity status and press coverage. Neither fact gives rise *per se* to a legitimate concern about candor.
2. During the jury selection process in a civil action arising out of the sexual abuse of minors, the court advises the prospective jurors that they will be asked during *voir dire* if they ever experienced or witnessed sexual abuse. Given the nature of such questions and the (presumably) private nature of "yes" answers, the court gives jurors an opportunity to answer at sidebar in the presence of counsel. The sidebar conferences are transcribed. Two jurors state that parents or other relatives sexually abused them. One of these jurors testified about the abuse at a criminal trial. The other never reported the abuse. The judge releases the transcript of the *voir dire* of the first prospective juror but, after determining that the second juror would suffer psychological harm if the abuse became public, seals the transcript as to her. The judge puts findings of fact and conclusions of law on the record to justify the sealing.

Principle 3 Absent a compelling interest, the public should have access to trial exhibits.

It follows from the right of public access to trial proceedings that there is similarly a right of public access to evidence admitted during a trial, including not only testimony that is memorialized in the transcript, but also exhibits that are offered or admitted in evidence. Admitted evidence should be fully available to the public, and the standard for sealing evidence should be the same as that for closing a courtroom: That is, only compelling interests may justify sealing, and any order denying access must be based on findings of fact and conclusions of law demonstrating such an interest.

These principles are not controversial. It should be recognized, however, that logistical problems may foreclose contemporaneous access to trial exhibits in particular cases. In such circumstances, the court, the parties, and the person seeking access should confer in an attempt to arrive at a procedure acceptable to all. In *re Application of National Broadcasting Co.*, 635 F.2d 945 (2d

Cir. 1980). When access is sought to evidence introduced through means of novel technology, the court may be vested with wider discretion in deciding whether and how access may be allowed. In *re Providence Journal Co.*, 293 F.3d (1st Cir. 2002). Moreover, public access to trial exhibits is inhibited by a practical concern: The prevailing practice in most American trial courts is that, after the time for filing an appeal has expired (or an appeal has been taken and resolved), trial exhibits are returned to the parties. Because the physical exhibits are no longer public records, these are no longer subject to enforceable public access rights.

Nonetheless, the fact that the materials have been part of the public record of a judicial proceeding is not without lasting significance once the exhibits have been returned. For example, any confidentiality to which discovery materials in a case may have been subject under a protective order should be lost once they have been introduced as exhibits. Thus, exhibits that have been returned to the propounding party should be available from an opposing party. Similarly, the fact that materials have been introduced in open court in a previous case should in most instances prevent these from being properly designated as confidential under protective orders applicable to discovery in subsequent litigation.

Best Practices

1. Providing access to trial evidence so that copies, recordings and/or photographs can be made of the evidence should be routine. Access should be denied only in rare circumstances where compelling interests leave the court with no practical alternative. Any denial of access to trial exhibits should be no broader than absolutely necessary and should be strictly limited to evidence that requires protection. Alternatives to denial of access should be employed whenever possible.
2. Courts should require parties who anticipate that denial of access to trial evidence may be necessary to raise the issue through written motion, to allow the court ample time for consideration and to permit the full exploration of alternatives to denial of access (such as providing for access at the conclusion of the trial). Courts should freely allow nonparties who seek access to trial evidence to submit papers and argue against any motion to deny access. Intervention should be liberally granted for this purpose. The hearing on the motion should be recorded or transcribed. Absent the most exigent circumstances, trial courts should deny any request for denial of access that is not made in time to allow such notice.
3. If denial of access is necessary, a trial court should consider providing access through other means (i.e., providing access at the conclusion of the trial) if this can be done without compromising the overriding interest that required denial of access. If the interest that led to denial of access loses its overriding importance with the passage of time, access to trial evidence should be granted at the earliest possible time.
4. Any order denying access to evidence should be based on a complete statement of the reasons for denial and of the findings of fact that support the order denying access, including express findings identifying the compelling interests that require denial of access and the reasons that less restrictive alternatives are insufficient.

Examples

1. A plaintiff receives documents in discovery from the defendant in a product liability case. The documents are marked confidential pursuant to a protective order entered in the case, and the plaintiff is prohibited from disseminating them publicly. In her pretrial statement, the plaintiff discloses her intent to use the documents as exhibits at trial, and during the trial these are marked and introduced in evidence without objection from the defendant in open court. A reporter seeks to obtain copies of the documents from the court, and the defendant objects, citing the protective order. The court orders that the reporter be permitted to obtain copies because the materials, having been used in open court, are freely available to the public.
2. Same facts as above, except that the trial has ended and the exhibits have been returned to the parties who introduced the exhibits, and the reporter seeks to obtain copies from the plaintiff. The defendant learns of the reporter's request and seeks to enforce the protective order to bar the plaintiff from providing the exhibits to the reporter. The court rejects the defendant's effort to invoke the protective order because the documents, having been received in evidence in open court, are no longer properly subject to protection.

CHAPTER 3. SELECTED BIBLIOGRAPHY

In re *Providence Journal Co.*, 293 F.3d 1 (1st Cir. 2002) (right of access to attend criminal trial and pretrial proceedings extends to “documents and kindred materials;” defendants’ right to fair trial constitutes compelling interest sufficient to allow restriction of access; common law, but not First Amendment, right of access held to encompass duplication of evidence, but where “cutting-edge technology” in issue, trial court given discretion to accommodate access).

ABC, Inc. v. Stewart, 360 F. 3d 90 (2d Cir. 2004) (vacating in part order closing *voir dire* examination of potential jurors; recognizes that after-the-fact release of transcript no substitute for presence; trial court failed to demonstrate interest in assuring juror candor sufficient to seal and failed to use available alternatives to sealing).

Publicker Indus., Inc. v. Cohen, 733 F.2d 1059 (3d Cir. 1984) (First Amendment and common law rights of access extended to civil proceedings).

In re *Application of National Broadcasting Co.*, 635 F.2d 945 (2d Cir. 1980) (common law right of access to inspect and copy judicial records extends to evidence introduced at trial, whether documentary or of other nature, under reasonable procedures to be determined by the court).

United States v. Antar, 38 F.3d 1348 (3d Cir. 1994) (presumptive right of access applies to *voir dire* of examination of potential jurors; concludes that trial court erred in sealing transcript without adequate notice and findings of fact; modifies trial court restrictions on postverdict interviews of jurors by press).

United States v. Simone, 14 F.3d 833 (3d Cir. 1994) (presumptive right of access applies to postverdict examination of jurors into possible misconduct; strikes down closure of examination given failure of trial court to articulate “overriding interest;” after-the-fact receipt of transcripts not equivalent to actual presence).

Little John v. BIC Corp., 851 F.2d 673 (3d Cir. 1988) (common law presumption of access applies to documents initially produced in discovery pursuant to protective order and later admitted into evidence at trial, but exhibits returned to party after trial no longer judicial records and disclosure cannot be compelled).

In re *Perrigo Co.*, 128 F.3d 430 (6th Cir. 1997) (injunction prohibiting magazine from publishing materials filed under seal violated First Amendment; umbrella protective order pursuant to which documents filed under seal without good cause determination invalid).

United States v. McDougal, 103 F.3d 651 (8th Cir. 1996) (affirms refusal to allow media access to videotaped depositions of President Clinton, although introduced at criminal trial and transcript released; concludes that, under circumstances presented, videotape itself not a “judicial record;” rejects “strong” presumption of access recognized by other circuits and defers to sound discretion of trial court).

United States v. McVeigh, 119 F.3d 806 (10th Cir. 1997) (First Amendment right of access does not extend to suppressed evidence or evidence inadmissible at trial).

Goff v. Graves, 362 F.3d 543 (8th Cir. 2004) (affirms sealing of depositions of confidential prison informants in Section 1983 action; preservation of institutional security and protecting against retaliation compelling interests to issue protective order and to seal portion of record).

28 C.F.R. Sec. 509 (sets out U.S. Department of Justice policy with regard to open judicial proceedings, civil and criminal).

A full bibliography, updated periodically, may be found on The Sedona Conference® web site at www.thesedonaconference.org

CHAPTER 4. SETTLEMENTS

Principle 1 In choosing a public forum to resolve a dispute rather than a private dispute resolution process, parties limit their ability to keep information confidential.

Parties may resort either to private dispute resolution or courts to resolve their disputes. As a general proposition, parties can assure confidentiality by opting for private dispute resolution, examples of which include arbitration and mediation. However, there may be circumstances when one or more parties opt for a public forum. Should a party do so, it is questionable whether confidentiality can be assured. Therefore, attorneys must make certain that their clients are fully aware of the available public and private dispute resolution processes and the possibility that confidentiality cannot be expected or assured in a public forum.

Under our judicial system, parties may resolve their disputes in a private rather than a public forum. Resort to a private dispute resolution process is a matter of contract, and the contracting parties can negotiate and agree to confidentiality, both of the process and any resulting settlement. Under these circumstances, parties have broad discretion to contract privately for confidentiality, can protect privacy interests, and can be reasonably assured that any settlement will be kept confidential. Injunctive relief may also be available to compel specific performance of a contractual confidentiality provision. Confidentiality becomes a matter of contract to be enforced pursuant to contract law. *See Herrreiter v. Chicago Housing Authority*, 281 F.3d 634, 636-37 (7th Cir. 2002); *Pansy v. Borough of Stroudsburg*, 23 F.3d 772, 788-89 (3d Cir. 1994); L. K. Dore, *Settlement, Secrecy, and Judicial Discretion: South Carolina's New Rules Governing the Sealing of Documents*, 55 S. C. L. Rev. 791, 799-800 (2004). Parties need not meet standards imposed by legislatures or courts for the issuance of confidentiality orders. Parties must recognize, however, that confidentiality provisions may be void as against public policy if such provisions are incorporated in a private settlement agreement that affects health and safety or contains illegal terms.

Despite the above, a party or parties may prefer a public forum to resolve a dispute. By doing so, the party invokes the jurisdiction of a forum that is subject to oversight and monitoring by the general public. This makes confidentiality problematical for several reasons. First, the dispute between the parties will presumably be a matter of public record. Second, the role of the court in the settlement (and any enforcement) process may be subject to public review. Nevertheless, a party or parties may resort to a public forum to avail themselves of judicial remedies in the settlement process.

Private dispute resolution may also raise societal concerns. *See, e.g., Note, Deadly Secrecy: The Erosion of Public Information Under Private Justice*, 19 Ohio St. J. on Disp. Resol. 679 (2004). There is little or no public oversight of the private dispute resolution process itself, and this lack of oversight exists at a time of increasing resort to private dispute resolution processes in the consumer and individual employee areas. Moreover, there is little or no public oversight of private settlements that may affect the public interest. On the other hand, public oversight of private dispute resolution might discourage resort to it.

Best Practices

1. At or before the commencement of litigation, attorneys should confer with their clients to determine whether private dispute resolution would be preferable to traditional litigation (assuming both options exist). Among other things, the attorney should present these options to his client in the context of the latter's desire (or need) to maintain confidentiality.

2. In discussing the above options with his client, the attorney should also discuss with his client the mechanism for enforcement of any breach of confidentiality by an adversary.
3. In discussing (1) and (2) above with his client, the attorney should recognize that certain disputes represent “classic” matters for private resolution, such as breach of a commercial contract between business entities. The attorney should also recognize that certain matters, such as those brought by individual plaintiffs to vindicate statutory rights or brought by or against public entities, may not be appropriate for private dispute resolution given the public interest in the resolution of such disputes.

Examples

1. Two parties to a commercial agreement include in that agreement a provision for mandatory arbitration or mediation. The agreement provides for a sale of goods by one party to the other. No public health or safety concerns are implicated. Under these circumstances, there is no need for public oversight of the dispute resolution process and the parties may ensure confidentiality through contract. Enforcement of any settlement would be through contract law principles.
2. An individual receives telecommunications services from a large business entity. The consumer, under the terms of a standard agreement that was mailed to him, is required to proceed to arbitration or mediation of any dispute he has with the business entity. Under the terms of a confidentiality provision, no public access is available to the facts or nature of the dispute, the terms of any award or settlement, or the services rendered by the arbitrator or mediator. However, the agreement itself would not prohibit access to the “procedural aspects” of the dispute resolution process by a government investigator or litigant in a subsequent civil action. Procedural aspects might include the number of arbitrations or mediations performed by a neutral or the fees received by the neutral from the business entity.⁸
3. A business entity intends to commence an antitrust action against a competitor. Rather than proceed to litigation, the parties agree to arbitrate or mediate. A settlement is reached in arbitration or mediation as a result of which the competitors agree to divide markets on a geographic basis, in conscious violation of antitrust laws. A startup company formed by former employees with knowledge of the confidential settlement agreement files suit, alleging that the settlement violates antitrust laws. The settling parties should not have any expectation that the confidentiality of the settlement will be maintained, inasmuch as the legality of the settlement itself has been brought into question and is highly relevant to the action.

Principle 2 An attorney’s professional responsibilities, both to the client and to the public, affect considerations of confidentiality in settlement agreements.

A basic responsibility of an attorney is to maintain the confidences of a client. Not only must confidences be maintained, but attorneys must take steps to arrive at a settlement and ensure that a client’s confidential information is protected. Nevertheless, under very limited circumstances, an

⁸ An alternative viewpoint on this issue has been submitted by a member of the Working Group. Alternative viewpoints and public commentary are posted and periodically updated on The Sedona Conference’ web site at www.thesedonaconference.org.

attorney may have discretion to reveal confidences when death, serious bodily injury or financial harm is imminent. In choosing whether to exercise that discretion, the interests of both the public and collateral litigants in securing otherwise confidential information should be considered.

The obligation of an attorney to maintain a client's confidences is fundamental to the attorney-client relationship. Consistent with that obligation, an attorney must take client confidences into account during settlement negotiations and may agree to limit the disclosure of confidential information as a condition of settlement. Attorneys must recognize, however, that confidential information may impact on, among other things, public health and safety. Depending on the ethical rules of the jurisdiction, attorneys may have discretion to reveal otherwise confidential information under such circumstances. See *Model Rules of Professional Responsibility*, Rule 1.6(b)(1). However, except in very limited circumstances, e.g., 17 C.F.R. Part 205 ("Standards of Professional Conduct for Attorneys Appearing and Practicing Before the [Securities Exchange] Commission in the Representation of an Issuer"), no *mandatory* duty to disclose exists.

The ethical obligation to maintain confidences and the confidential nature of a settlement negotiated by an attorney may also affect specific individuals (such as collateral litigants). These individuals may have a legitimate desire for access to confidential information. There is little guidance on the factors that an attorney should consider in deciding the exercise the discretion referred to in Model Rule 1.6. See *Model Rules of Professional Responsibility*, Rule 1.6, Comment 6.

Finally, attorneys need to familiarize themselves with ethical rules that prohibit restrictions on another attorney's practice of law. A settlement that purports to restrict an attorney from using information gained in one case in other related cases may violate the ethical rules of the jurisdiction.

Best Practices

1. Attorneys should familiarize themselves with applicable ethical rules to determine which circumstances may warrant disclosure of otherwise confidential material.
2. Attorneys should familiarize themselves with applicable ethical rules to determine what limitations exist on their negotiating agreements that might contain unethical or illegal terms.
3. Regardless of whether an attorney has discretion to disclose a confidence, he should discuss with his client his concern and attempt to resolve that concern.

Example

1. The parties to a products liability action are engaged in settlement negotiations. The product at issue is a widely distributed and well-known kitchen appliance. Through study of the defendant's highly confidential design documents, obtained during discovery under a protective order, the plaintiff learned that there was a design defect in the product's control panel that might lead to a fire, as happened in the case. Plaintiff's attorney knows of at least four other cases involving fires in the product. The defendant insists that it will not settle without a confidentiality agreement. The attorney confers with his client about the proposed settlement and the defendant's confidentiality demand. The client decides to agree to the settlement and confidentiality demand. Absent an ethical rule to the contrary in the jurisdiction, the information would be considered a "client confidence." The attorney may not reveal any information covered by the confidentiality clauses of the settlement agreement.

Principle 3 **Settlement discussions between parties and judges should not be subject to public access.**

Courts exist to resolve disputes. Disputes may be resolved in a number of ways, one of which is settlement. Thus, judges should be expected to encourage settlement and to participate in settlement discussions.

Judges are public actors. Judges are subject to oversight and monitoring by the public. When a judge participates in settlement discussions between the parties, the judge is “injected” into the settlement process and the judge’s actions presumably have some significance. Thus, it can be argued that there should be public monitoring and oversight when a judge participates in settlement discussions. The desire or need for such oversight and monitoring may be heightened when settlement discussions affect public health and safety.

There are, however, factors that argue against public access to settlement negotiations. First, settlement negotiations require candor, and public access might discourage a party from revealing information. Second, settlement discussions are often conducted on an *ex parte* basis and information is exchanged with the judge which, for settlement purposes, is not shared with the adversary. Third, the judge is not engaged in “decision-making” in the settlement process, thus limiting the basis for public oversight and monitoring. Indeed, in most cases the parties are free to settle on whatever terms they wish without submitting their agreement to the court, and the judge has neither the need nor the power to approve or disapprove of their agreements. Therefore, in cases where the judge has no approval role and serves merely as a mediator or facilitator for the parties’ private negotiations, the presumption of access to settlement discussions, if it exists at all, is a weak one. If public access is to be denied on this premise, however, the judge should take care not to step into a judicial role; thus, the parties should not seek “approval” of a settlement, and the judge should not purport to give it, and the settlement agreement should not be filed with the court.

Best Practices

1. A judge may play the role of an intermediary or facilitator in settlement negotiations between the parties to a case. Alternatively, the judge may refer the case for confidential, court-annexed mediation. In neither case is there a presumption of public access to the settlement discussions or to any settlement agreement that results, if the court does not step into an adjudicatory role and the settlement agreement is not filed with the court.
2. Absent a statute or rule which requires otherwise, attorneys should not ask a judge to “approve” a settlement, and a judge should not do so; nor should settlements be filed with the court if these do not require approval or the terms of the settlement are not intended to be entered as orders of the court.
3. In cases where approval is required, such as class actions, and in cases where the parties seek the court’s imprimatur on their settlement so that it can be entered as a consent decree enforceable through injunction, contempt, or summary judgment, the settlement must be submitted to the court. In such cases, the settlement agreement becomes a presumptively public record of the court, and proceedings leading to formal approval are subject to the right of public access.
4. A judge should not *sua sponte* suggest to the parties that a settlement might be kept confidential. It might be appropriate, however, in a case pending in federal court for a judge to suggest, as an alternative, that the court retain jurisdiction to enforce a settlement.

5. If the terms of a settlement are presented to a judge, the judge may express concern about any term that might be arguably illegal. To do so, however, may impose an obligation on the judge to independently “police” the provisions of a settlement that might be difficult to fulfill, as there will be no adversarial development of any issue.

Examples

1. The parties to a commercial dispute appear before a judge for a settlement conference. The judge conducts the conference in chambers and engages in *ex parte* discussions with the parties in an attempt to reach a settlement. A settlement is reached. The terms of the settlement are not put on the record. The settlement is private and there is no right of public access.
2. The same facts as (1) above, but the settlement is lodged with the court as a stipulation, with a motion that it be adopted by the court as an order. If the judge grants the motion, the judge gives the settlement a public imprimatur and the settlement becomes a public record.
3. The same facts as (1) above, but the settlement includes a provision pursuant to which the parties agree to divide their state into districts and not compete with each other in certain districts. The judge cautions the parties of the possible illegality of the settlement and refuses to facilitate it further.

Principle 4 Sealed settlements should be the exception and not the norm.

Parties that resort to a public forum and that enter into a settlement thereafter may have legitimate interests that warrant confidentiality. However, given the public right of access to public forums, sealed settlements should be the exception and not the norm. Courts should assure that settlements are *not* sealed unless specific findings of fact and conclusions of law are made, and are available for public review. Attorneys should not seek to seal a settlement unless they are satisfied that such a showing can be made.

Courts are public forums. There is a presumption of access to courts and to information filed with courts, including settlement agreements. Indeed, information considered to be confidential by parties and filed with courts may, by the act of filing, become public records and subject to public access. *Jessup v. Luther*, 277 F.3d 926 (7th Cir. 2002); *Bank of America Nat'l Trust & Savings Ass'n v. Hotel Rittenhouse Assoc.*, 800 F.3d 339 (3d Cir. 1986). But the presumption of public access is arguably weaker (and thus more easily rebutted) for “settlement facts” that relate to the specific terms, amounts, and conditions of a settlement involving non-governmental, private litigants than the presumption that attaches to information that is central to the adjudicatory function of courts. Parties may have legitimate interests in the confidentiality of all or part of a settlement. Parties may also have justifiably relied on confidentiality in entering into a settlement. To overcome the presumption of public access, parties must be prepared to satisfy the tests established by legislatures and courts which govern the sealing a settlement, either in whole or in part. The judge should make specific findings of fact and conclusions of law on any application to seal a settlement, as the presumption of public access must be overcome and the interests of the general public and collateral litigants may be affected.

Despite resort to a public forum, the parties may elect to avoid any question of access to the terms of a settlement by simply not filing it. For example, parties may enter into a settlement agreement and then file a voluntary dismissal under Fed. R. Civ. P. 41(a)(1). Such a dismissal requires no judicial action and the agreement would not be submitted to the court. Alternatively, a party could

move for dismissal under Fed. R. Civ. P. 41(a)(2), the resolution of which does not require approval of any settlement agreement. Under either procedure (or their state equivalents), the settlement agreement does not become a public record. These procedures foreclose the ability of courts to determine whether any terms of the settlement offend public policy. *Compare SmithKline Beecham Corp. v. Pentuch Group, P.L.C.*, 261 F. Supp. 2d 1002, 1004-08 (N.D. Ill. 2003) (Posner, C.J., sitting by designation) (alleged illegality of settlement agreement not subject to review under either procedure) *with Fomby-Denson v. Department of the Army*, 247 F.3d 1366, 1374-75 (Fed. Cir. 2001) (declining *sua sponte* to enforce confidential settlement agreement as contrary to public policy).

Sealed settlements are infrequent, at least in federal courts. R. T. Reagan, et al., *Sealed Settlement Agreements in Federal District Court* (Federal Judicial Center, 2004). However, of broader concern are confidentiality provisions of settlements. While parties are free to agree between themselves to confidentiality provisions in settlements, if the parties enlist the court to enforce the settlement by requesting that the court retain jurisdiction to oversee the fulfillment of the settlement terms, filing a separate action to enforce the settlement, or filing a separate action for damages for breach of the settlement, the courts should deny judicial enforcement of any non-disclosure provision that goes beyond “settlement facts” and attempts to suppress “adjudicative facts” relevant to the underlying merits of the settled case.

Best Practices

1. Before attempting to seal a settlement, attorneys should confer with their clients to ensure that legitimate privacy, commercial or similar confidences exist that warrant confidentiality.
2. When negotiating the terms of a settlement, attorneys should confer among themselves with regard to any need for confidentiality and attempt to reach agreement on legitimate grounds for confidentiality.
3. Attorneys should not seek to seal settlements unless they are satisfied (consistent with Fed. R. Civ. P. 11 or its State equivalents) that grounds exist for a sealing order.
4. In considering whether to seal a settlement, courts should distinguish between “facts” related to the settlement, such as amount, terms and conditions, and “facts” related to the litigation process, such as pleadings and the fruits of discovery. The former, which arise out of the settlement process itself, might warrant a sealing order. Care should be taken in extending any such order to the latter.
5. In negotiating a confidential settlement agreement, attorneys should incorporate into any confidentiality provision an explicit exception for judicially compelled disclosures.

Examples

1. An individual plaintiff and a corporate defendant have entered into a settlement of a personal injury action. The defendant, as a matter of corporate practice, does not reveal the monetary amount of any settlements. The defendant insists, and the plaintiff agrees, on a confidential settlement. The parties do not contemplate filing the settlement with the court, as there is no basis for a sealing order.

2. An individual plaintiff and a corporate defendant have entered into a settlement of a personal injury action. The defendant settled to avoid the publication of internal documents at trial and on the express condition that the amount of the settlement would be confidential. The parties want the terms of the settlement embodied in an order by which the court retains jurisdiction to enforce the settlement. They lodge the settlement with the court and file a motion to seal. As the presumption of public access is weak and there is no public interest in the amount of the settlement, the court seals the settlement as to the amount only.

3. An individual plaintiff, who developed certain software, is in litigation with a corporate defendant. The litigation arises out of the corporate defendant's alleged failure to develop new applications arising out of the software and market those applications. The parties enter into a settlement agreement. The terms of the settlement provide for the parties to share source codes of the defendant's applications. Both parties, who are in a very competitive field of business, deem the source codes highly confidential. The parties agree that the settlement should be confidential. Neither party trusts the other and both contemplate injunctive relief and contempt should the source codes be misused. They agree to lodge the settlement with the court and file a motion to seal. The source codes are described in detail so that there can be no misunderstanding of the scope of the settlement in any future enforcement action. The court issues an order sealing the settlement in part, only to the extent that the settlement reveals the source codes.

Principle 5 Absent exceptional circumstances, settlements with public entities should never be confidential.

Public entities, at the federal, state and local levels, are public actors and, by definition, their actions affect the public interest. Moreover, public entities are, as a general rule, subject to open public meeting and/or open public record laws of their respective jurisdictions. Thus, there should never be an expectation of confidentiality when a public entity enters into a settlement. There may, however, be exceptional circumstances that warrant some degree of confidentiality.

As are courts, public entities are public actors. The public has an interest in the monitoring and oversight of public entities. Moreover, open public meetings and open public records laws are widespread (if not universal). For these reasons, there should be a strong presumption against any settlement entered into by or with a public entity being kept confidential. This presumption should be particularly strong with regard to any monies paid by public entities in settlement. Despite this, there may be extraordinary circumstances that warrant some degree of confidentiality. These may include matters that implicate legitimate privacy interests of individuals, such as juveniles.

Best Practices

1. An attorney representing an individual or entity in litigation against a public agency should caution his or her client against any expectation of privacy.

2. An attorney representing an individual or entity in litigation against a public agency should, before entering into settlement negotiations with the agency, consult with his or her client to determine whether the client has any legitimate interest in confidentiality.

3. An attorney representing a public agency should, in the course of settlement negotiations with an adversary, caution the adversary against expecting any confidentiality of a settlement agreement.

4. Any court that has before it an application to seal a settlement of a matter involving a public entity should give careful consideration to relevant federal or State law in considering any such application. Specifically, judges should be especially hesitant to seal a settlement if the information would be otherwise disclosable under a federal or state freedom of information or open public records statute. On the other hand, information that would be exempt from disclosure under such a law or under some other privacy-related law might merit a confidentiality order.

Examples

1. A business entity brought a breach of contract action against a state agency. The action arises out of alleged delay damages incurred by the plaintiff after the defendant failed to accept goods on a certain date. The settlement agreed to by the parties included, at plaintiff's insistence, a confidentiality provision. There is no legitimate basis for confidentiality.
2. Two individual plaintiffs brought suit against a state agency for wrongful disclosure of their private medical information. The defendant agency admitted that it erred in disclosing the information. The parties entered into a settlement, at plaintiffs' insistence, which sealed all facts relevant to the suit, including plaintiff's medical information. The plaintiff's information is confidential and that alone may warrant confidentiality.

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Federal Case Law

2D CIRCUIT

Gambale v. Deutsche Bank, 377 F.3d 133 (2d Cir. 2004) (presumption of access to settlement amount “weak” given reliance on confidentiality and lack of public interest therein).

Geller v. Branic Int’l Realty Corp., 212 F.3d 734 (2d Cir. 2000) (district court “so ordered” a stipulated settlement of a sexual harassment case, which included a provision requiring the court to seal the entire file. After the settlement, the district court sealed only the settlement agreement, not the entire file. The Court of Appeals held that the trial court was required to seal the case file. The district court initially had wide latitude in determining whether or not good cause existed to seal the file. However, after ordering the stipulated settlement, any modifications to the sealing order could only be justified by extraordinary circumstances or compelling need).

United States v. Glens Falls Newspapers, Inc., 160 F.3d 853 (2d Cir. 1998) (newspaper was not entitled to intervene to challenge protective order covering settlement negotiation information because settlement discussions and documents were not subject to presumption of public access, and disclosure would impede the court’s role in encouraging and facilitating private settlements; “the trial judge has the power to prevent access to settlement negotiations when necessary to encourage the amicable resolution of disputes”).

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3D CIRCUIT

In re *Kensington Industries Ltd.*, 368 F.3d 289 (3d Cir. 2004) (Recusal of district judge who appointed and engaged in ex parte discussions with “advisors” who had conflicts of interest; court notes that ex parte settlement discussions permitted under the Code of Judicial Conduct if consented to by parties.

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Coolsavings.com v. Brightstreet.com, 2002 WL 458958 (N.D. Ill. 2002) (denying parties' request to keep settlement confidential where parties were unable to produce a mutually agreeable settlement instrument without the court's assistance, and their agreement therefore became part of the court's record and a public document).

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Daines v. Harrison, 838 F. Supp. 1406 (D. Colo. 1993) (newspaper had standing to challenge magistrate judge's order sealing terms of settlement reached during settlement conference before magistrate judge, and public right of access required vacatur of confidentiality order; but because settlement agreement was never part of court record, ruling could not mandate disclosure of the agreement; confidentiality was still one of the terms of the settlement agreement, and if one party chose to disclose the terms of the agreement, the other party would still have a cause of action for breach of the agreement).

11TH CIRCUIT

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CHAPTER 5. PRIVACY AND PUBLIC ACCESS TO THE COURTS IN AN ELECTRONIC WORLD

Introduction

The growing use of electronic filing and imaging technology makes it possible for courts to offer broader public access to case files through remote electronic access. There is increasing awareness, however, of the personal privacy implications of public access to case files, especially through the Internet. In the United States court community, it has been suggested that case files - long presumed to be open for public inspection and copying unless sealed by court order - contain private or sensitive information that should be protected from unlimited public disclosure and dissemination in the new electronic environment. Others maintain that electronic case files should be treated the same as paper files in terms of public access and that existing court practices are adequate to protect privacy interests.

Potential Privacy Implications of Public Access to Electronic Case Files

Before the advent of electronic case files, the right to “inspect and copy” court files depended on physical presence at the courthouse. The inherent difficulty of obtaining and distributing paper case files effectively insulated litigants and third parties from any harm, actual or perceived, which could result from misuse of information provided in connection with a court proceeding. The Supreme Court has referred to this relative difficulty of gathering paper files as “practical obscurity.” See *United States Department of Justice v. Reporters Committee for Freedom of the Press*, 489 U.S. 749, 770-71, 780 (1989) (recognizing “the vast difference between the public records that might be found after a diligent search of courthouse files, county archives, and local police stations throughout the country and a computerized summary located in a single clearinghouse of information”).

Case files may contain private or sensitive information such as medical records, employment records, detailed financial information, tax returns, Social Security numbers, and other personal identifying information. Allowing access to case files through the Internet, depending on how it is accomplished, can make such personal information available easily and almost instantly to anyone who seeks it out. Sensitive information, unless sealed or otherwise protected from disclosure, can be downloaded, stored, printed, and distributed. This information often is highly valued by data-mining companies that cull public records and integrate public record data with other sources of data on individuals.

These circumstances place into conflict two important government obligations:

1. Information should be available to allow for effective public monitoring of government functions; and
2. Private or sensitive information in government files may require protection from indiscriminate disclosure.

Two primary positions appear to be emerging with respect to the privacy issues relating to electronic case files. The first is sometimes referred to by the shorthand expression, “public is public.” This position assumes that the *medium* in which case files are stored does not affect the *presumption* that there is a right of public access. By this analysis, current mechanisms for protecting privacy - primarily through protective orders and motions to seal - are adequate even in the new electronic environment. Some have also suggested that the focus for access policies should be on determining whether information should be deemed “public” in any format - electronic or paper - rather than on limiting access to electronic case files.

Advocates of this position suggest that litigants do not have the same expectation of privacy in court records that may apply to other information divulged to the government. The judicial process depends on the disclosure voluntarily or involuntarily of all relevant facts, to allow a judge or jury to make informed decisions. In bankruptcy cases, for example, a debtor must disclose a Social Security number or taxpayer identification number and detailed financial information that the bankruptcy trustee needs to administer the case and that creditors need to fully assert their rights. Similarly, in many types of civil cases - for example, those involving personal injuries, criminal allegations, or the right to certain public benefits - case files often must contain sensitive personal information. To a certain extent, then, litigants must expect to abandon a measure of their personal privacy at the courthouse door.

A second position on the privacy issue focuses on the relative obscurity of paper as compared to electronic files. Advocates of this position observe that unrestricted Internet access undoubtedly would compromise privacy and, in some situations, could increase the risk of personal harm to litigants or others whose private information appears in case files. The combination of electronic filing and remote access magnifies the potentially dire consequences of mistaken exposure of sensitive information. The accidental disclosure of such information cannot be reversed - mistaken dissemination on the Internet is fundamentally different from an inadvertent paper filing in a courthouse. This reality increases the burden on attorneys and courts to carefully guard against such mistakes. It also has been noted that case files contain information on third parties who often are not able - or not aware how - to protect their privacy by seeking to seal or otherwise restrict access to sensitive information filed in litigation.

Advocates of the second position acknowledge that it is difficult to predict how often court files may be used for "improper" purposes in the new electronic environment. They suggest that the key to developing electronic access policies is not the ability to predict the frequency of abuse, but rather the assumption that even a few incidents could cause great personal harm. Thus, although there is no expectation of privacy in case file information, there is an expectation of practical obscurity that will be eroded through the development of electronic case files. Appropriate limits on electronic access to certain file information may allow the courts to balance these interests in the context of the new electronic environment.

Emerging Themes in the Development of Electronic Access Policy and Procedures

In efforts to analyze the issues of privacy and access to electronic court records, the courts are engaging in a debate that in many ways mirrors the broader societal debate over privacy in the Internet era. In the policy development process, courts are addressing several related questions. First, what is the proper role of the courts in collecting and maintaining public records in electronic form? Are the courts - by allowing Internet access to case files- changing their role from being passive "custodians" to a more active role of "publishers" or "disseminators" of court records? This is a key question that has motivated courts at both the federal and state levels to begin the development of new access policies in the context of electronic case files. A second, related, question is whether the courts should undertake this policy inquiry before placing electronic case files on the Internet.

Third, court policy-making committees also have begun to ask whether the reliance on a case by case approach to access issues should be reexamined in the context of Internet publication of court records: Is it prudent to rely on litigants as the primary means of protecting privacy in the context of case files? Judges, as a general matter, do not raise privacy issues on their own. Instead, privacy issues that might be asserted in the course of litigation historically have been addressed on a case-by-case basis, so that if a litigant does not challenge the entry of sensitive information into the record, it will be entered without further enquiry.

Courts are searching for an alternative to the case-by-case approach, crafting restrictions on remote public access to preserve an element of the practical obscurity of paper files while allowing the public to take advantage of rapid advances in technology to provide easier and cheaper ways to monitor the courts and particular cases. This search for an alternative has led several courts to propose or implement new “categorical” restrictions on access, in effect reversing the common law presumption of access either by presumptively sealing certain types of cases or categories of information or by maintaining open access at the courthouse but restricting remote access on the Internet. In the federal courts, for example, the Judicial Conference of the United States has developed a privacy policy that allows unlimited public access to Social Security case files only at the courthouse, but prohibits remote public access over the Internet. Minnesota has proposed a twist on “courthouse only” access, providing remote public access only to documents and information created or maintained by the courts themselves. Under the Minnesota proposal, documents created by litigants would only be accessible from the courthouse. Other new state court rules on public access - such as those from California, Maryland, and Vermont - carve out limited categories of cases or information for presumptive sealing, adding new categories to existing statutory sealing requirements.

Finally, courts are increasingly focused on “logistics” issues such as data security, the proliferation of electronic documents, and the mechanics of implementing new sealing requirements or access restrictions in the context of electronic case files.

Several common themes have emerged in access policy development at both the federal and state court level. These include:

- Rules or policies, in general, provide specific lists of what is, and is not, presumptively subject to public access.
- Many of the new rules affirm the primary role of judges and judicial discretion. Decisions to close files continue to be left to judges on a case-by-case basis.
- As an alternative to the traditional case-by-case approach, rules or policies allow unlimited public access at the courthouse to a particular case type, while remote public access is either restricted or prohibited.
- Many of the new rules require partial or full redaction of personal identifying information such as Social Security numbers, financial account numbers, home addresses, and birthdates.
- Rules include a new approach - one that builds on the technology - to segregate sensitive information on special forms, whether paper or electronic, so that public access can be restricted in appropriate situations.
- Courts are emphasizing the importance of informing litigants that case files may be available on the Internet, and of educating attorneys on these issues. This emphasis recognizes that the participants in the litigation process must understand how court records are maintained on the Internet and how to protect private information if necessary.
- Courts, as administrative entities that collect information, have a role to play in protecting the privacy interests of litigants. Some state court rules, for example, list data elements that must not appear on the public docket, even if the court needs to collect additional information to process a case.

- Courts are addressing the concept of “bulk access” to electronic case files. Several state court rules attempt to restrict electronic access to bulk information by allowing access to only one case at a time. Others permit bulk access, but only subject to contractual terms that may include an agreement not to use bulk data for commercial purposes.
- Litigants are being made responsible for considering what they file from an access/privacy perspective. Some rules direct litigants either to refrain from filing sensitive personal information or, if it must be filed, to file under seal.

Conclusion

Courts have begun to address privacy issues that arise as court files are made accessible on the Internet. The federal courts and a growing number of state court systems have developed policies or court rules to balance the competing interests of public access and personal privacy. These policies and rules recognize that case files contain sensitive personal and other information that may require special privacy protection in the context of the Internet. Through changes in rules, court policies - and likely also in case law - it is clear that the law in this area will continue to develop to respond to the fundamentally changed context of public access to court records in the Internet era.

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TOWARD A FEDERAL BENCHMARKING STANDARD FOR EVALUATING INFORMATION RETRIEVAL PRODUCTS USED IN E-DISCOVERY

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"The Half of Knowledge is Knowing Where to find it"

--- Samuel Johnson, 1775

I. INTRODUCTION

On September 21, 2004, lawyers began their opening arguments in *U.S. v. Philip Morris*, before presiding Judge Gladys Kessler in the U.S. District Court for the District of Columbia, in what turned out to be an eight month bench trial.² The government's RICO³ case against the tobacco industry, in which at one time the U.S. claimed entitlement to some \$280 billion in damages,⁴ has to date generated over 40 million pages in discovery.⁵ Untold many millions more pages undoubtedly have been subject to searches conducted by all parties in a quest for relevant records.

One "baby universe" of records searched for purposes of responding to discovery propounded by the defendant tobacco companies consisted of 18 million email records of the Clinton White House, maintained in an electronic repository at the headquarters of NARA in College Park, Maryland. For NARA, the manual review process employed in this review -- once an initial automated keyword search had been conducted -- entailed a huge commitment of time and staff resources, stretching NARA resources to the limit. The problems encountered in searching this large database revolved in substantial part around an automated keyword search that generated large numbers of nonresponsive records (along with responsive ones), all of which needed to be sorted out through a labor-intensive manual review process.

The failure to greatly weed out false positives at the automated state of the search necessarily should prompt re-examination of the basic assumptions regarding the utility of the information retrieval techniques that were employed. This is especially the case given the expected exponential growth of NARA's holdings of electronic records. Can and should the same information retrieval techniques be employed in the future against databases that are between ten and a thousand times larger than even the current White House email database of records? Are there alternative

1 Director of Litigation, Office of the General Counsel, National Archives and Records Administration (NARA). A prior version of this paper was presented at the Sedona Conference's Third Annual Meeting of the Working Group on Best Practices for Electronic Retention and Production, held in Phoenix, Arizona, October 15-16, 2004. I am grateful to have received comments on the prior version and/or to have had the opportunity to discuss the ideas presented herein with a number of individuals, including Daisy Abbot, Paul Berkman, David Blair, Macyl Burke, Robert Chadduck, Bruce Croft, Lucja Iwanska, Reagan Moore, Doug Oard, Herb Roitblatt, Seamus Ross, Ian Soboroff, Bill Underwood, and Ellen Voorhees. The views expressed in this paper are, however, solely the author's, and do not necessarily purport to represent the official position of NARA or any other component of the Federal government. Elizabeth Kim, George Mason U. School of Law (J.D. candidate 2006), assisted in providing initial legal research.

2 Michael Janofsky, "Last Defense Witness Testifies in Federal Tobacco Trial," *New York Times*, June 3, 2005.

3 Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. 1961-68.

4 See Memorandum Opinion in *U.S. v. Philip Morris USA, Inc., et al.*, Civ. Action No. 99-2946 (D.D.C.), dated July 7, 2004, at 2 n.3, available at <http://www.dcd.uscourts.gov/99-2496ak.pdf>. The U.S. Court of Appeals subsequently vacated the government's RICO "disgorgement" claim, see *U.S. v. Philip Morris USA, Inc.*, 396 F.3d 1190 (D.C. Cir. 2005); however, a further appeal and additional remedies have been sought by the government. See Carol D. Leonnig, "Tobacco Escapes Huge Penalty; U.S. Seeks \$10 Billion Instead of \$130 Billion," *The Washington Post*, June 8, 2005.

5 "Drowning in Paper," *Legal Times*, March 18, 2004, available at <http://www.law.com/jsp/article.jsp?id=1079144426836>.

automated ways to search for information that make for a more efficient process without sacrificing either the completeness or the accuracy of the overall search? And are there objective measures for evaluating the efficacy of very different types of search methodologies?

The Sedona Conference's January 2004 Best Practices Paper includes a brief comment regarding "search methodologies," including the notion of employing keyword and concept searching, as well as utilizing sampling techniques to refine the accuracy of searches while reducing cost.⁶ A variety of alternative methodologies to simple keyword searching, including advanced Boolean searching, concept searching, and natural language searches, do in fact exist, as discussed below. The Sedona Conference's very raising of the notion of multiple search methodologies being employed is itself forward looking, given a paucity of case law in this area. Notwithstanding, however, the substantial buzz in the vendor community regarding the latest "search engine"-type products available to consumers, it seems clear that there is no agreed-upon standard for measuring different information retrieval methodologies (let alone particular software products) in the context of how they actually do or would perform in civil discovery.

Based on a substantial body of academic work in the area of information and text retrieval, a "benchmarking" standard for comparing the results of differing search methodologies is conceivable and could be developed. As proposed here, use of particular methodologies and particular "certified" products that have been found to meet a set of baseline or functional requirements for the accurate retrieval of responsive records could be stipulated to at the onset of litigation, either in the context of Rule 26(a) initial discovery, or at any time thereafter as part of the overall discovery process.

This paper represents an initial exercise in fleshing out what a benchmarking standard would entail, drawing upon the concepts of precision and recall as developed in the academic literature of information retrieval. Reference will also be made to the *Daubert* formulation of "known or potential rate[s] of error" to be associated with competing search methodologies, including notions of Type I and Type II errors (*i.e.*, false positives and false negatives). The modest proposal made below is a call for the development by an accredited national or international standards body of a testbed for the testing of software products meeting certain benchmark standards, along the lines of the Department of Defense's efforts in evaluating whether software products meet the DoD 5015.2 standard for electronic recordkeeping products.

II. THE INFORMATION RETRIEVAL PROBLEM IN LITIGATION: AN EXAMPLE

Over the course of a two year period, NARA responded to discovery propounded by the defendant tobacco companies in *U.S. v Philip Morris*.⁷ As part of this effort, NARA staff in College Park, Maryland conducted keyword searches against Clinton email repositories. The main database consisted of email records captured by ARMS, the Automated Records Management System operated by IT staff in the Office of Administration (OA) component of the Executive Office of the President (EOP) on behalf of most White House staff. ARMS was created in July 1994 in the aftermath of the long-running White House email case captioned *Armstrong v. Executive Office of the President*.⁸ The ARMS system operated as a form of electronic recordkeeping application, sitting "on top of" the DEC All-in-1 email system (and later Lotus Notes system), and functioning to capture email designated as "records" by approximately 1500 EOP end users under the Federal Records Act and the

6 See THE SEDONA PRINCIPLES: Best Practices Recommendations & Principles for Addressing Electronic Document Production (January 2004 Version), Comment 11a, p. 39 (SEDONA PRINCIPLES), available at http://www.thesedonaconference.org/content/miscFiles/publications_html?grp=wgs110.

7 The last paragraph of a 1,723 paragraph "Request to Produce Documents," filed by defendants under Rule 34 of the Federal Rules of Civil Procedure (FRCP), and directed to U.S. government agencies generally, requested that NARA search all of its facilities (including Presidential libraries, as well as its regional and national headquarters archives), for responsive records to the prior 1,722 requests to produce all documents concerning tobacco.

8 1 F.3d 1274 (D.C. Cir. 1993). *Armstrong*, otherwise known as the "PROFS" case, involved a series of rulings regarding the White House's duty to manage and preserve e-mail records under the Federal Records Act, including Iran-Contra related email residing only on National Security Council backup tapes. For a discussion of the *Armstrong* litigation, see Jason R. Baron, "E-mail Metadata in a Post-*Armstrong* World," paper in the *Proceedings of the 3rd IEEE Computer Society Metadata Conference*, April 1999, available at <http://www.computer.org/proceedings/meta/1999/papers/83/baron.html>; see also Jason R. Baron, "The PROFS Decade: NARA, E-mail, and the Courts," Chapter 6 in Bruce Ambacher, ed., *Thirty Years of Electronic Records* (Lanham, MD: Scarecrow Press 2003).

Presidential Records Act.⁹ For purposes of tobacco discovery, EOP federal records components undertook their own keyword searches and worked separately with DOJ in producing responsive federal record emails; NARA, as legal custodian of all Clinton presidential records after the Administration ended, had lead responsibility for producing presidential record emails. Although the internal structure of ARMS involved a series of “buckets” standing as proxies for various EOP components, thus necessitating multiple automated searches, for purposes here the presidential components of ARMS can collectively be treated as if they consisted of one undifferentiated “big bucket” of email records capable of being searched on an across-the-board basis in response to the inputting of keywords.¹⁰

For the tobacco search, the straightforward approach NARA employed with respect to keyword searching produced on the order of 200,000 “hits” against the 18 million presidential record database. These hits were generated as the result of basically two searches: a first search was conducted based on a dozen simple keywords entered, such as “tobacco,” “smoking,” “cigarette,” “tar” and “nicotine,” with a later, second search, conducted in slightly more sophisticated fashion using Boolean operators such as “AND NOT,” to eliminate potential sources of false positive hits. Through repeated sampling and a fair measure of trial and error, NARA staff were able to thus refine automated search queries. For example, the string “Marlboro AND NOT Upper Marlboro” was utilized to eliminate emails concerning Upper Marlboro, Maryland; similarly, the resulting “PMI [Philip Morris Institute] AND NOT presidential management intern”; and “b/w [Brown & Williamson] AND NOT photo.” In some cases, NARA was able to persuade the parties not to demand search terms that were known to produce unduly large numbers of false positives.¹¹

The results of NARA’s automated searches of the ARMS database (*i.e.*, all “hits” based on keyword searches) were burned onto CDs, which in turn were handed over in controlled fashion to a small army of in-house archivists, lawyers, and law clerks for the purpose of their conducting further manual review over what amounted to over a six month process. This manual review effort consisted of reviewing both emails and all attachments to emails (necessitating often a review of multiple attachments), first for printing out potentially responsive records, second, for a re-review for responsiveness, and third, for multiple reviews to determine whether one or more grounds for asserting privilege might be claimed. Except for highly sensitive privileged email records which were withheld from production but otherwise recorded on privilege logs, all responsive emails - privileged and nonprivileged alike - were then made available in hard copy form to defendants as part of an agreed-upon “open record” or “clawback” procedure.¹² Substantially over 100,000 responsive email records were made available to defendants in this fashion.

In speculating about the next wave of potential litigation, NARA simply is unlikely to be able to employ a similarly manual review-intensive process for presidential emails (and other forms of e-records) where the potential universe of hits numbers in the millions or tens of millions of records (based not only on a Clinton era database, but also future databases containing even substantially larger numbers of emails from the incumbent and future presidential Administrations). Although a manual review for privileged material may or may not continue to be viewed as a necessity by future Presidents - a separate matter beyond the scope of this paper - there is without question a need for a

9 Uniquely in government, OIA’s email system operates under two distinct records laws. Because some EOP components legally constitute federal agencies (*e.g.*, OMB, the Office of Science and Technology Policy, etc.) with independent governmental functions, they are covered under the Federal Records Act, 44 U.S.C. Chapters 21, 29, 31 & 33. Yet other White House components consist of personnel whose sole duty it is to advise and assist the President (*e.g.*, the White House Office, the Domestic Policy Council, the Council of Economic Advisers, the National Security Council (the latter being the result of a later holding in *Armstrong*, see 90 F.3d 553 (D.C. Cir. 1996), etc.), and are thus covered by the Presidential Records Act, 44 U.S.C. Chapter 22. One chief distinction between the records laws is that while federal records are immediately subject to the Freedom of Information Act, presidential records are generally exempt from FOIA access until five years beyond the end of a President’s time in office, or in the case of certain categories of records designated by the President, up to 12 years beyond the end. See 44 U.S.C. 2204.

10 Also left unaddressed here is a further complication in searching posed by the fact that as the result of certain types of missing email in ARMS, EOP and NARA staff had entered into a Tape Restoration Project (TRP) aimed at restoring email from backup tapes and creating a separate TRP database for eventual merger with ARMS. The TRP database was also searched for the tobacco discovery. See generally Memorandum of Understanding entered into between EOP and NARA, dated January 11, 2001, available at http://www.archives.gov/presidential_libraries/presidential_records/clinton_gore_email_records_memo.html (describing restoration efforts undertaken).

11 One notable example: although the search term “Ti” was put forward as potentially of interest in generating potential hits for emails concerning the “Tobacco Institute,” NARA sampling revealed a lack of responsive emails but a large number of emails referencing Julie Andrews in *The Sound of Music* singing “Do, Re, Me . . .” (leading to “Ti [tea] . . . that will bring us back to Do”).

12 See SEDONA PRINCIPLES at 37 (Comment 10.d), for use of this form of open discovery. A different, procedurally simpler procedure was utilized by EOP staff in responding to discovery involving federal record emails, consisting of wholesale turning over of emails in electronic form on CDs under open records discovery subject to clawback. The sensitive nature of presidential record emails precluded use of a similar procedure, thus leading to the more manual review intensive process described above.

more efficient automated search mechanism to weed out false positive “hits” so as to minimize the tremendous inefficiencies in reviewing emails and attachments by means of a manual process for the purpose of establishing a sub-universe of responsive or relevant records in discovery.

III. ALTERNATIVE SEARCH METHODOLOGIES: SOME CHOICES

In the academic world, “information retrieval” is defined as “[the] actions, methods and procedures for recovering stored data to provide information on a given subject.”¹³ With the substantial caveat that the following does not purport to represent a comprehensive taxonomy, there would appear to be several types of non-mutually exclusive search methodologies worth considering as “alternatives” to brute force information retrieval by simple keyword inputs.

A. Advanced Boolean Searches.

Boolean logic has been described as a “‘syntactical calculus,’ a mathematical algebra that allows the researcher to tailor the search query by using the Boolean operators ‘and,’ ‘or,’ ‘not,’ or ‘near.’”¹⁴ Search queries may be tailored by linking terms using grammatical connectors (“term a” within same paragraph as “term b”), or numerical connectors (“term a” within so many words of “term b”).¹⁵ As made reference to above, one systematic means of making keyword searches more efficient is to employ an iterative process: if “term a” generates large numbers of the same sort of false positive, refine the search through a “term a AND NOT term b” command (Marlboro AND NOT “Upper Marlboro,” where “Marlboro” cigarettes is the target responsive concept). In doing so, an evaluation may be warranted, however, as to whether documents including “term b,” while in the main turning out to be false positives, nevertheless retain the capability to still end up being responsive to the original target “term a.”

B. Statistical Techniques.

“Statistical document retrieval techniques extend the capabilities of Boolean systems by using frequency of occurrence and relevance ranking.”¹⁶ A relevance score for particular documents is obtained using an inverse frequency algorithm, which “assumes that for a document to score high, the query term must occur frequently in the document, but infrequently in the entire document set.”¹⁷ This technique “weights” the use of particular terms in a Boolean expression according to their perceived relevance ranking.

C. Concept Searching.

Concept searching “involves using a massive dictionary of the English language to find synonyms and related words.”¹⁸ The example is given for the word “motorcycle” retrieving “moped,” “bike” or perhaps even “automobile,” “car” or “vehicle.”¹⁹

D. Natural Language.

Natural language queries are expressed using normal conversational syntax, either as spoken or in writing, without syntactical rules or conventions. The legal community is familiar with natural language queries utilizing Lexis and Westlaw.

13 ISO 2382/1 (1984).

14 Carol M. Bast, Ransford C. Pyle, “Legal Research in the Computer Age: A Paradigm Shift?,” 93 *Law Library Journal* 285 (Spring 2001), text at n.39 (available on Westlaw).

15 *Id.*

16 William E. Underwood, Matthew G. Underwood, “Evaluation of Document Retrieval Technologies to Support Access to Presidential Electronic Records,” PERPOS Technical Report ITTL/CISTD 02-3 (December 2002), George Tech Research Institute (available from the author).

17 *Id.* at 3 & n.3.

18 Margaret Carol Fine, “Zen and the Art of Internet Searching,” *Law Technology Product News*, Vol. 7, No. 12, at 147 (Col. 1) (December 2000) (available on Westlaw).

19 *Id.*

E. Fuzzy Logic.

“Fuzzy logic was first invented as a representation scheme and calculus for uncertain or vague notions. It is basically a multi-valued logic that allows more human-like interpretation and reasoning in machines by resolving intermediate categories between notations such as true/false, hot/cold etc used in Boolean logic.”²⁰ Apart from its other intricacies, using fuzzy logic one might hope to attain “hits” based on misspellings of versions of words or incomplete words, such as “motercyler” for “motorcyclor.”²¹ This technique takes on importance due to the error rate associated with scanned in data utilizing optical character recognition.

Many other variations on the above techniques exist under different labels, including references on the Web and in the information retrieval literature to case based reasoning, query expansion, probabilistic logic, Bayesian networks, vector spaces, parallel computing, and visual analytics, to name just a few.²² Moreover, there is nothing to prevent combining one or more of the above techniques in hybrid fashion to optimize search results.

IV. MEASURES FOR EVALUATING SEARCH METHODOLOGIES IN E-DISCOVERY

An enormous academic literature already exists on the general subject of information retrieval (IR) and “searching.”²³ Beginning with the so-called “Cranfield tests” conducted in the late 1950s and early 1960s involving indexing techniques, a huge cottage industry of IR academic research has devoted itself to following a traditional model of: (i) using test collections of documents; (ii) developing query or topic sets as tasks to perform; and (iii) making relevance judgments.²⁴ A number of computer science-oriented organizations and conferences are devoted in whole or in part to the subject, including with respect to comparing or evaluating different alternative search methodologies.²⁵

However, so far as this author is aware, there has been little reference in the academic literature to the special type of data mining problems faced by lawyers as they confront demands from opposing parties in civil discovery to find all responsive documents in large electronic databases under arbitrary, externally-imposed deadlines.²⁶ It must be conceded that “the legal system is remarkable in its reliance on both precise and imprecise concepts.”²⁷ Nevertheless, the prime measures of accuracy analyzed in the information retrieval literature arguably map to the litigation support context.

In response to a request to produce documents filed under FRCP 34, the term “documents” will be broadly defined by careful lawyers to include just about any electronic “data file” extant on an opposing party’s computers. Such data files (referred to for purposes of this article as “documents”)

20 Pragma Agarwal, “Lotfi Zadeh: Fuzzy logic-Incorporating Real-World Vagueness,” Center for Spatially Integrated Social Science, Univ. of California, available at <http://www.csiss.org/classics/content/68>.

21 Fine, “Zen and the Art of Internet Searching,” *supra* n.18.

22 See generally, Mark Lager, “Spinning a Web Search,” Univ. of California, Santa Barbara (1996), available at <http://www.library.ucsb.edu/untriangle/lager.html>; Michael W. Berry et al., “Matrices, Vector Spaces, and Information Retrieval,” 41 *SIAM Review* (1999), available at <http://pubs.siam.org/sam-bin/getfile/SIREV/articles/34703.pdf>. For interesting recent work in applying visualization techniques to email archives, with implications for improving future content analysis, see Adam Perer, Ben Schneiderman, Douglas W. Oard, *Using Rhythms of Relationships to Understand Email Archives* (2005), available at <http://www.cs.umd.edu/hcil/emailviz/workshop>.

23 A Google search for “information retrieval” returned 4,210,000 entries (in 0.30 seconds) (accessed June 5, 2005). For early scholarship, see G. Salton, *Automatic Information Organization and Retrieval* (New York: McGraw-Hill 1968); C.J. van Rijsbergen, *Information Retrieval* (London: Butterworth 1979). More recent scholarly works include Ricardo Baeza-Yates, Berthier Ribeiro-Neto, *Modern Information Retrieval* (N.Y.: Addison-Wesley 1999); David A. Grossman, Ophir Frieder, *Information Retrieval: Algorithms and Heuristics* (Boston: Kluwer Academic Publishers 1998); Karen Sparck Jones, Peter Willett, eds., *Readings in Information Retrieval*, chap. 4 (“Evaluation”) (San Francisco: Morgan Kaufman Pubs. 1997); Ian H. Whitten, Alistair Moffat, Timothy C. Bell, *Managing Gigabytes: Compressing and Indexing Documents and Images*, chap. 4 (“Querying”) (New York: Van Nostrand Reinhold 1994). Websites providing further multiple links include: <http://web.syr.edu/~dieckemar/ir.html>; <http://www.searchtools.com/info>; http://filebox.vt.edu/users/wfan/text_mining.html.

24 Edie Rasmussen, “Evaluation in Information Retrieval” (2002), available at www.music-ir.org/evaluation/wp2/wp2_rasmussen.pdf.

25 See, e.g., Annual Text REtrieval Conferences (TREC), <http://trec.nist.gov>; ACM (Association for Computer Machinery) Special Interest Group on Information Retrieval, <http://www.sigir.org>; see also U. Mass. Amherst Center for Intelligent Information Retrieval, at <http://ciir.cs.umass.edu>.

26 David C. Blair recognizes the issue in his monograph, *Language and Representation in Information Retrieval* (Amsterdam: Elsevier 1990), at ii-iii: There is a growing undercurrent of urgency in the study of Information Retrieval, because the problems with which it is concerned are pervasive and spreading. . . . Adding to the urgency is the fact that extraordinarily high standards of retrieval are required with increasing frequency. Large document data bases to support corporate or government litigation . . . are . . . examples of the growing number of large-scale systems where the consequences of poor retrieval can be dramatic.

See also Robin Widdison, “New Perspectives in Legal Information Retrieval,” 10 *International Journal of Law and Information Technology* 41, 66 (2002) (available on Westlaw).

27 Daniel E. Rose, Richard K. Belew, “Legal Information Retrieval: A Hybrid Approach,” in *Proceedings of the Second International Conference on AI and Law*, Vancouver, 138-146 (1989).

are either responsive to discovery, or they are not. They also will be retrieved in discovery, or they will not. The resulting 2 x 2 set of possible permutations is simple to contemplate:

	RESPONSIVE	NON-RESPONSIVE
Retrieved	A	B
Not retrieved	C	D

Cell A: Responsive documents to a discovery request successfully retrieved.

Cell B: Nonresponsive documents retrieved in error (*i.e.*, false positives).

Cell C: Responsive documents failed to be retrieved (*i.e.*, false negatives).

Cell D: Nonresponsive documents properly left unretrieved.²⁸

The “Recall” rate is a measure of the ability of a given retrieval methodology to find all of the potential responsive documents in a given collection. The recall fraction is expressed as:

$$\text{RECALL} = \frac{\text{number of responsive documents actually retrieved}}{\text{number of potentially responsive documents}} = \frac{A}{A + C}$$

“Precision” is a measure of the ability of a given retrieval methodology to find truly responsive documents amongst all the documents in a given collection.

$$\text{PRECISION} = \frac{\text{number of responsive documents retrieved}}{\text{total number of documents retrieved}} = \frac{A}{A + B}$$

An example of the difference between the two measures: Assume a database of 1000 documents, of which 100 truly are responsive to a discovery request. The search methodology used retrieves 200 documents, but of these 200 “hits” only 50 turn out to be responsive.

$$\text{Recall rate} = 50/100 = 50\%$$

$$\text{Precision} = 50/200 = 25\%$$

Ideally, a good retrieval methodology will serve to recall a very high percentage of truly responsive documents, without sacrificing “production efficiency” in also generating large numbers of “hits” containing nonresponsive documents. The relationship between recall and precision is an inverse one: increasing the Recall rate invariably leads to a corresponding loss of Precision, as more and more documents are retrieved to find the elusive remaining needle in the rest of the haystack. This idea is captured in the generic graph below²⁹:

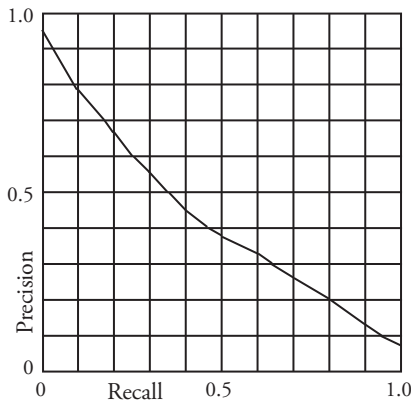


Fig. 1. A typical precision-recall graph

28 Display format and legend modified from “Quantitative Issues in Information Retrieval,” available at http://www.diagnosticstrategies.com/info_retrieval.htm.

29 Diagram borrowed from Kavi Mahesh, Oracle Corporation, “Text Retrieval Quality: A Primer,” available at http://www.oracle.com/technology/products/text/htdocs/mt_quality.htm.

The academic literature analyzes and evaluates precision levels of particular retrieval techniques when measured against a particular arbitrarily selected rate of recall.³⁰ There is, however, no “one” recall rate (other than the utopian 100%) that corresponds to a generally accepted benchmark level for use by the legal profession in responding to discovery. (Parties are expected to conduct “reasonable” searches of their holdings, not “perfect” ones.) One widely-cited early study by Blair and Manon suggested that lawyers overestimate the number of responsive documents uncovered by the particular search methodology they choose to use.³¹ A more recent “pilot test,” involving a comparison of how human review fared versus automated search techniques of a sample from a proprietary test collection of 48,000 documents, suggests that lawyers using only themselves as reviewers failed to do as well as automated techniques in finding relevant documents.³²

Based on unscientific surveys and anecdotal evidence, it is generally perceived to be the case that neither Boolean nor natural language searches provide dramatically different rates of “recall.”³³ It is also fairly widely held in the librarian and legal communities that natural language searching provides less overall precision in results, in the manner defined above.³⁴ On the other hand, one important study conducted by Howard Turtle comparing retrieval effectiveness indicated that natural language querying provides better retrieval performance (in terms of recall) than expert searchers using a Boolean retrieval system, when searching full text legal materials in the context of a controlled WESTLAW environment.³⁵ All of these propositions remain, however, largely untested with respect to the latest generation of search methodologies as applied to a potential universe of corporate or institutional data subject to civil discovery.

A different way of analyzing the “production inefficiency” built into any process of responding to civil discovery would be to consider the “rates of error” associated with particular methodologies, in a manner suggested by the Supreme Court’s 1993 opinion in *Daubert v. Merrell Dow Pharmaceuticals, Inc.*³⁶ There, the Court set out a multi-factor test for introducing scientific evidence in the courtroom, which included “in the case of a particular scientific technique” the fact that a “court ordinarily should consider the known or potential rate of error” associated with the technique, and “the existence and maintenance of standards controlling the technique’s operation.”³⁷ The two well-recognized types of errors associated with *Daubert* are Type I errors in the nature of false positives, and Type II errors in the nature of false negatives (*i.e.*, the latter being the “missed document rate”³⁸).³⁹ The retrieval of large numbers of false positive unresponsive documents is certainly burdensome and vexatious; however, the failure to find responsive documents can be critical in particular litigations (*i.e.*, the failure to find one or more “smoking guns”). This asymmetry as between the importance of Type I and Type II errors takes on special significance in matters of legal discovery, as compared with other contexts.⁴⁰ In other words, lawyers’ “risk tolerance” for missing responsive records is low.

At least as a starting point for further discussion, Type II errors appear important enough to specifically control for. Accordingly, in considering alternative methodologies to brute force keyword

30 It should also be noted that the academic literature cited *supra*, n.23, contains a number of other statistical measures, including combining Recall and Precision rates into a single number. One such combined measure is the harmonic mean of R and P, or M, where $M = 2RP / (R + P) = 2A / (2A + B + C)$. See http://www.diagnosticstrategies.com/info_retrieval.htm. A critique of search methodologies in a legal context using the harmonic mean of R and P is beyond the scope of this paper.

31 The original study, reported in 1985, involved approximately 350,000 pages (in 40,000 documents) gathered in connection with litigation involving a San Francisco BART train accident. Although the attorneys in the litigation initially estimated that they had found 75% of the relevant documents, Blair and Manon estimated a true recall rate of only 20%. See David C. Blair and M. E. Manon, “An evaluation of retrieval effectiveness for a full-text document retrieval system,” *Communications of the ACM*, 28(3): 290-299 (1985).

32 See Anne Kershaw, Sherry Harris, et al., “Technology Trends,” paper presented at The Sedona Conference” Third Annual Meeting of the Working Group on Best Practices for Electronic Document Retention and Production, Oct. 2004 (available from the author).

33 See, e.g., Sheila E. Désert, “Westlaw is Natural v. Boolean Searching: A Performance Study,” 85 *Law Library Journal*, 713, 715-16 (1993);

Christopher G. Wren, Jill Robinson Wren, *Using Computers in Legal Research: A Guide to Lexis and Westlaw* 26 (Madison: Adams & Ambrose, 1994).

34 See Underwood, *supra* n.16 (“A difficulty with natural language-based document retrieval systems based on query expansion is that while they increase the recall of relevant documents, they do this at the expense of retrieval of many more irrelevant documents than would be retrieved with statistical document retrieval systems.”)

35 Howard Turtle, “Natural Language vs. Boolean Query Evaluation: A Comparison of Retrieval Performance,” *Proceedings of the 17th annual international ACM SIGIR conference on Research and development in information retrieval*: 212-220 (1994).

36 509 U.S. 579.

37 *Id.* at 594.

38 “Missed Documents” constitute the number of responsive documents missed by the search methodology; in the example above, $M = C / (A + C)$ (the inverse of the Recall rate).

39 See http://www.daubertexpert.com/basics_daubert-v-merrell-dow.html.

40 Cf. http://www.diagnosticstrategies.com/info_retrieval.htm (suggesting that problems of false positives and false negatives warrant more equal weight in the medical profession).

searching, a fundamental assumption should be that any proposed alternative must be able to meet or surpass the Recall rate associated with a particular keyword methodology for a given level of Precision. Conversely, establishing a hierarchy of methodologies with the “winner” being the method which generates the greatest rate of Precision for a given level of Recall provides an optimal result. In doing so, it is not to be underestimated that “the comparison of retrieval performance between ranked and unranked systems raises a number of difficult problems”⁴¹ which will need to be addressed.

V. THE IDEA OF ESTABLISHING A FEDERAL INFORMATION RETRIEVAL BENCHMARK

As stated succinctly by Jennifer Trant representing Archives & Museum Informatics:

Benchmarking is well established throughout the economy, in areas from automotive manufacturing to knowledge management to higher education. All benchmarking initiatives are committed to sharing information and to improving business processes or performance. Through shared measures, assessments can be conducted that provide comparable results in different contexts. The emphasis in benchmarking is on reliability and comparability.

* * * *

Benchmarking involves the comparison of the results of two or more different methods of performing a known task with a known result (the benchmark) in order to establish relative effectiveness. Benchmarking is a critical component of establishing best practices, key performance indicators, or performance metrics⁴²

For our purposes, some of the questions raised with respect to benchmarking search methodologies would be:

- Can we validly compare keyword searches against alternative forms of search methodologies?
- What objective statistical measures of accuracy can be employed in making such comparisons?
- What levels of “Recall” and “Precision” associated with current search methodologies exist for particular types of legal searches, as applied to particular forms and content types of documents?
- What costs are associated with increasing either rates of Recall or Precision?
- How are new methodologies to be evaluated?⁴³

Were there an agreed upon set of standards for using particular software products employing one or more search methodologies, opposing parties in litigation would theoretically be more likely to reach agreement in the form of stipulations at the onset of discovery concerning the use of those products for conducting wide-scale searches of e-records in their corporate or institutional databases. Such a process could easily be incorporated as part of the FRCP 26(a) framework or in FRCP 16 pre-trial orders. Moreover, such discussions dovetail with recent proposed changes to FRCP Rules 16 and 26, which would expressly require both disclosure of “electronic source materials” to opposing parties, and a discussion of any issues surrounding the manner in which such materials will

41 Turtle, “Natural Language vs. Boolean Query Evaluation: A Comparison of Retrieval Performance,” *supra* n.35, at 214. Turtle defines the two main problems as “(1) how can ranked versus unranked lists be compared,” and “(2) how can differences in the size of the returned set be reconciled?” In performing his evaluation of most relevant cases found by competing methodologies against “F. Supp” and “E2d” Westlaw collections, he elected to deem the Boolean set of results as in fact ranked by date (since lawyers depend most on more recent cases). Thus, his method of comparison may not appear to map to the typical unstructured corporate or institutional data set typically subject to e-discovery. Turtle does, however, suggest a number of statistical measures, including measures of average precision and precision against arbitrary rank cutoffs, that may be useful in conducting the contemplated evaluation and benchmarking of competing methodologies. *Id.* at 215.

42 Jennifer Trant, “Image Retrieval Benchmark Database Service: A Needs Assessment and Preliminary Development Plan,” Report Prepared for the Council on Library and Information Resources and the Coalition for Networked Information (revised draft January 2004), Sections 4.1, 4.2 available at <http://www.clir.org/pubs/reports/trant04/tranttext.htm>.

43 *Id.*, Section 4.1.

be preserved and made subject to further discovery (*i.e.*, accessed).⁴⁴ In this manner, settling on a particular search methodology relatively soon after the onset of litigation would greatly further the aspirational goal expressed in FRCP 1, namely, “to secure the just, speedy, and inexpensive determination of every action.”

VI. PROPOSAL FOR TESTING BY AN ACCREDITED STANDARDS BODY

A host of accredited national and international standards bodies exist which could be tapped to perform a “testbed” service for evaluating competing products (and their methodologies), with results transparent to the legal community (and the public) as set out on the organization’s website. Sponsoring organizations could include such accredited standards organizations as AIIM,⁴⁵ ARMA,⁴⁶ or the ISO,⁴⁷ working with the American Bar Association or some other legal affiliate.

A successful model for this type of process is run by the Joint Interoperability Test Command (JITC) of the Department of Defense, for the testing of electronic recordkeeping products meeting certain functional requirements.⁴⁸ DoD 5015.2-STD⁴⁹ “sets forth mandatory baseline functional requirements for Records Management Application (RMA) software used by DoD Components in the implementation of their records management programs. It defines required system interfaces and search criteria to be supported by the RMAs, and describes the minimum records management requirements that must be met based on current [NARA] regulations.”⁵⁰ JITC’s website⁵¹ consists of a “Compliant product register,” which lists products that have been verified to comply with the DoD standard’s requirements, mandatory and otherwise. The JITC site provides test configurations and summary reports on each software product.

Similarly, there is no reason in principle why search software utilizing varying retrieval methodologies could not be made subject to evaluation and comparison testing with respect to parameters such as Recall and Precision, cued to the needs of the legal community.

VII. NEXT STEPS

A consensus needs to exist that benchmarking competing search products and methodologies as used in the civil discovery context would be a useful exercise, given the IR “state of the art.” Assuming a consensus exists, it will be incumbent on interested parties to seek out legal institutions as well as an accredited standards organization which might act as sponsors of a general research effort. The academic information retrieval community should be apprised of the problems faced by lawyers in e-discovery, in order that they weigh in on relevant ongoing research and to make future proposals.

NARA is currently sponsoring a variety of lines of research on the matter of the efficacy of information retrieval. For the past several years, as part of its overall Electronic Record Archives initiative,⁵² NARA has partnered with the Georgia Tech Research Institute on the “PERPOS Project” - a Presidential Electronic Records Pilot Operations System, aimed at analyzing software tools which support archival functions such as access and preservation of presidential records, including an evaluation of natural language-based search and retrieve tools used in responding to Freedom of Information Act requests.⁵³ More recently, NARA has collaborated with staff at the National Institute of Standards and Technology to look into evaluating information retrieval products and methodologies. NARA also is co-sponsoring a project with the Center for Information Policy⁵⁴ at the

44 See Ken Withers, “Two Tiers and a Safe Harbor: Federal Rulemakers Grapple with E-Discovery,” *The Federal Lawyer*, vol. 51, No. 8, at 29 (Sept. 2004).

45 See <http://www.aiim.org>.

46 See <http://www.arma.org>.

47 See <http://www.iso.org/iso/en/ISOOnline.openerspage>.

48 See <http://jitic.fhu.disa.mil/recmgt/pp.htm>.

49 See http://www.dtic.mil/whs/directives/corres/pdf/50152std_061902/p50152s.pdf.

50 See “Records Management Application Compliance Test and Evaluation Process and Procedures,” Defense Information Systems Agency, Joint Interoperability Test Command, Fort Huachuca, Arizona, at Section 1.2 (June 2004), available at <http://jitic.fhu.disa.mil/recmgt/pap2.doc>.

51 See <http://jitic.fhu.disa.mil/recmgt/register.htm>.

52 See http://www.archives.gov/electronic_records_archives/about_era.html.

53 See <http://perpos.gtri.gatech.edu>. The research paper by William Underwood cited *supra*, n.16, is one product of this ongoing effort.

54 See <http://www.cip.umd.edu>.

University of Maryland's College of Information Studies to survey what constitute current best practices in the area of information retrieval methodologies.

For its part, the Sedona Conference®, under the direction of Richard Braman, has as of early 2005 formalized a Search and Retrieval Sciences special project team. The planned research agenda of this subgroup is to work initially on designing a comprehensive study to test the hypothesis that automated search and retrieval tools can meet or beat existing human search and retrieval techniques. A second contemplated phase of such a project (with the involvement of independent academic and public-private partners) might ultimately lead to the type of testing of current (and future) technologies under objective benchmarked criteria consistent with the proposal set out in this paper. All of the above initial efforts will hopefully lead to a better understanding of how to use search and retrieval products in the future when lawyers (both inside and outside of government) are subject to the next tidal waves of massive e-discovery.



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