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2 AND DEPARTMENT OF JUSTICE
3 ANTITRUST DIVISION
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7 PUBLIC HEARINGS:
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11 COMPETITION AND
12 INTELLECTUAL PROPERTY LAW
13 AND POLICY IN THE
14 KNOWLEDGE-BASED ECONOMY
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1 P R O C E E D I N G S
2 - - - - - -
3 MS. GREENE: We'll unfortunately have to proceed
4 without one of our panelists. I'm sure Bhaskar will be
5 here shortly.
6 First of all, thank you for joining us. It's a
7 real honor for us to have you all here. Today is in
8 some ways a combination of many of the panels that we've
9 had throughout the course of the hearings over the past
10 four months. We are going to be looking at basically
11 what was one of the critical actors throughout the whole
12 hearings, that is to say the Federal Circuit. We're
13 going to be looking at, among other things, the impact
14 that it has on antitrust law.
15 And one of the things that characterizes the
16 panel is obviously not only the incredible caliber of
17 the guests that we have here today, but also your
18 number. Much to my chagrin, because of the number of
19 panelists, I've actually taken the liberty of putting
20 together a little time line so we can keep things
21 flowing. We have so much to cover. Not only do we have
22 a lot of topics that we up here have thought about in
23 terms of things we want to cover, but also the countless
24 things which you all have brought to our attention as
25 still additional topics that we need to consider.

1 So, if you would stick to the time frame as much
2 as possible, I would greatly appreciate it.
3 Additionally, we have a very kind attorney, Mike
4 Barnett, who is sitting in the front row, who is an
5 attorney in the Office of the General Counsel. He has
6 agreed to hold up a sign that will tell you that you
7 have three minutes left, and then no minutes left. And
8 we'll try that, because as I said, I've had the honor of
9 speaking to each of you and I know that you have lots of
10 points to make and I really don't want to end in a
11 position where some folks don't have the opportunity to
12 speak.
13 So, with no further ado, let me just go ahead
14 and briefly do the introductions, because I think most
15 of the cast of characters is well known here, and we can
16 take it from there. My name is Hillary Greene, I am the
17 Project Director for IP in the Office of the General
18 Counsel here at the FTC.
19 To my right is Suzanne Michel, who is the
20 Counsel for Intellectual Property at the FTC, and she is
21 in the Bureau of Competition, but I like jokingly
22 telling people that she is an honorary member of the
23 General Counsel's Office, because she has just been an
24 absolutely amazing resource throughout the entire length
25 of the hearings, and in the many, many months preceding

1 them. So, I think we need to give you the credit you
2 are due.
3 We have to her right, Frances Marshall, an
4 attorney from the Department of Justice, who is heading
5 up the effort for that agency. To my left we have Ray
6 Chen who is an Associate Solicitor at the PTO and who is
7 reprising his role and we're glad to have you back.
8 Very briefly let me go around and introduce
9 today's panelists. First, Charles Baker is a partner at
10 Fitzpatrick, Cella, Harper & Scinto in New York, where
11 he has been lead trial counsel and extensively involved
12 in all aspects of patent litigation. He is currently
13 Chair of the IP Section of the ABA, and he has been a
14 member of the boards of directors of the American
15 Intellectual Property Law Association and the New York
16 Intellectual Property Law Association. And he is,
17 despite all of those affiliations, here in his
18 individual capacity.
19 We next have Bhaskar, who is actually a former
20 staff member here at the Federal Trade Commission. He
21 is coming in from Massachusetts, so I'll hold off
22 introducing him formally until he gets here.
23 Next we have Roxanne Busey, who is a partner in
24 the Chicago office of Gardner, Carton & Douglas, where
25 her practice includes antitrust litigation and

1 counseling. She is the current Chair of the ABA Section
2 of Antitrust Law, she served on the Special Task Force
3 on Competition Policy to the Clinton Transition Team and
4 she has testified before the FTC on joint ventures and
5 efficiencies and global competition.
6 Next we have Rochelle Dreyfuss, who is the
7 Pauline Newman Professor of Law at NYU where her
8 research and teaching interests include intellectual
9 property, privacy and the relationship between science
10 and law. She is currently a member of the National
11 Academy of Sciences Committee on Intellectual Rights in
12 the Knowledge-Based Economy and she has worked as a
13 consultant to the Federal Trade Commission and the
14 Department of Justice throughout the course of these
15 hearings. We appreciate you being here today and
16 yesterday as well. I think of her as basically being
17 our expert on the Federal Circuit, when in doubt, ask
18 Rochelle.
19 Next we have George Gordon, a partner in the
20 litigation department and a member of the antitrust
21 practice group at Dechert in Philadelphia, Pennsylvania.
22 His antitrust practice concentrates on intellectual
23 property, antitrust litigation and counseling. He is
24 active in the ABA's Antitrust Section and is the
25 in-coming cochair of the Section's Intellectual Property

1 Committee.

2 Next we have Bob Hoerner, who is a retired
3 partner from Jones Day. At Jones Day in Cleveland, his
4 practice consisted principally of antitrust litigation
5 and counseling, and patent litigation and licensing.
6 Prior to becoming a partner at Jones Day, he was the
7 Chief of the Evaluation Section in the Antitrust
8 Division at the Department of Justice. He has lectured
9 and written on antitrust topics, particularly,
10 principally in the patent misuse and patent antitrust
11 fields.

12 Next we have Jim Kobak, who is a partner with
13 Hughes, Hubbard & Reed in the firm's New York office
14 where he leads the firm's antitrust section and
15 concentrates much of his practice in antitrust and
16 intellectual property. He is a former chair of the
17 Intellectual Property Committee of the ABA Section of
18 Antitrust Law. In addition to authoring articles and
19 serving on drafting and editing committees for several
20 ABA Antitrust Section publications, he has edited the
21 ABA Handbook, Intellectual Property Misuse, Licensing
22 and Litigation.

23 Next we have Steve Kunin, and Steve Kunin is the
24 Deputy Commissioner for Patent Examination and Policy at
25 the PTO and he has served in this capacity since

1 November of 1994. In his capacity, he participates in
2 the establishment of patent policy for the various
3 patent organizations, under the Commissioner of Patents,
4 including changes in patent practice, revision of the
5 rules of practice and procedures, and the establishment
6 of examining priorities and classification of
7 technological arts.
8 Next we have Cecil Quillen, who is a currently a
9 senior advisor with the Cornerstone Research Group, an
10 economic consulting firm. He is former general counsel
11 at Eastman Kodak where he was senior vice president and
12 a member of the board of directors from '86 to '92. He
13 has spoken and written on innovation in the U.S. patent
14 system extensively.
15 Next we have Bob Taylor. Bob Taylor is the
16 managing partner of the Silicon Valley office of Howrey,
17 Simon, Arnold & White, where he specializes in patent
18 and antitrust litigation and the related fields of law.
19 He is a former chair of the Antitrust Section of the
20 ABA, and he was also a member of the Advisory Commission
21 on Patent Law Reform whose report was presented to the
22 U.S. Secretary of Commerce in 1992, proposing changes in
23 the patent laws.
24 Lastly, we have Matt Weil, who is a partner in
25 the Irvine office of McDermott, Will & Emory where he

1 specializes in intellectual property litigation and
2 counseling. He has been a director of the Orange County
3 Patent Law Association since '98 and he is a frequent
4 author and speaker on intellectual property issues.
5 Unfortunately, Ms. Azcuenaga was unable to join
6 us today. But we hope to be able to get her input -- as
7 the input of all of the public -- through other ways,
8 such as submitting comments. Additionally, Mark Banner
9 was unable to join us, which is unfortunate. But we are
10 absolutely delighted to have Bob Taylor who has agreed
11 to come in his stead and speak on behalf of the ABA's IP
12 section.
13 Okay, and with no further ado, I would like to
14 actually just turn to Roxanne, to start us off.
15 MS. BUSEY: Thank you, Hillary. I am pleased to
16 be here in my capacity as Chair of the ABA Antitrust
17 Section. I have to say that these views are being
18 presented on behalf of the Antitrust Section only, and
19 have not been approved by the House of Delegates or the
20 Board of Governors of the American Bar Association, and
21 therefore should not be construed as representing the
22 position of the ABA.
23 I believe that you have received in advance our
24 written testimony. Today I would just like to highlight
25 some of the points that we made in our written

1 testimony.

2 I guess the first thing that I would like to do
3 is to applaud the joint action here by the agencies in
4 holding these particular hearings. As many of you know,
5 this was one of the -- not a specific hearing, but the
6 concept of looking into antitrust and intellectual
7 property issues was one of the recommendations of our
8 transition report to the Bush II administration. We
9 felt this was an area that needed further review and it
10 was an area that was very important to the economy.

11 We felt, and/or I think we do feel that these
12 public hearings are a very useful tool for the agencies
13 to explore criticisms of their own enforcement theories,
14 as well as subjects that may warrant enforcement outside
15 of the context of any particular case. We have noted
16 that the hearings have unearthed some very interesting
17 information that we think will be useful to the agencies
18 and to the intellectual property and antitrust
19 communities as antitrust intellectual property policy is
20 developed.

21 In the time that has been allotted to me, I
22 would like to talk briefly about the changing
23 relationship between intellectual property and antitrust
24 law, then talk briefly about the 1995 guidelines and
25 some things that we would recommend be changed or added,

1 and then end by briefly bringing to your attention the
2 publication that the antitrust section did with respect
3 to the Federal Circuit, which I assume will be the
4 primary focus of the discussions today.
5 In terms of the relationship between the
6 antitrust and intellectual property law, I think that
7 most agree that both of these laws have provided an
8 important framework for the preservation and expansion
9 of a competitive free-market economy. The intellectual
10 property laws encourage innovation, and clearly the
11 antitrust laws do as well. They have as a secondary
12 purpose the efficient utilization of resources and the
13 promotion of consumer welfare.
14 Nevertheless, the courts have long struggled to
15 reconcile antitrust enforcement with the statutory right
16 to exclude under patent and copyright law. In going
17 back to the 1970s, I think we can all remember when
18 there were "Nine No-Nos" that were espoused by the
19 agencies and violation of those resulted in something
20 that was illegal per se.
21 Fortunately, those "Nine No-Nos" were revoked,
22 at least in part. Unfortunately, there are some who now
23 believe that there are no no-nos, so to speak, and that
24 all of these practices are, per se, lawful.
25 I think today most recognize that absent

1 evidence of a naked restraint, most practices should
2 generally be analyzed under the rule of reason.
3 Therefore, the moderating view is that there is a
4 reconciliation and a balancing between the rights of
5 intellectual property owners and the antitrust laws.
6 I would also note that both laws have
7 Constitutional authorization, both come from Article 1,
8 Section 8. The reference in the Constitution to patents
9 is a little bit more specific, it authorizes Congress to
10 promote the progress of science and useful arts by
11 securing for limited times to authors and inventors the
12 exclusive right to their respective writings and
13 discoveries. The clause pertaining to antitrust is from
14 the Constitution's authorization to Congress to regulate
15 commerce among the several states.
16 The Supreme Court has characterized the
17 antitrust laws as the Magna Carta of free enterprise,
18 stating, "They are as important to the preservation of
19 economic freedom and our free enterprise system as the
20 Bill of Rights is to the protection of our fundamental
21 personal freedoms."
22 Issues at the interface of antitrust and
23 intellectual property are best resolved when each field
24 has due respect for the other. The antitrust lawyers
25 must recognize and appreciate the legitimacy of

1 intellectual property, the presumption of validity
2 afforded to intellectual property rights and the right
3 of intellectual property owners unilaterally to exclude
4 others from utilizing such property.
5 At the same time, intellectual property law must
6 remember that representations to the Patent Office,
7 certain restrictions and licensing agreements,
8 cross-licensing and patent pools, patent acquisitions,
9 patent settlements, and the use and intellectual
10 property in standard-setting may have antitrust
11 implications.
12 Former FTC Chairman Pitofsky has suggested that
13 there is a trade-off between intellectual property and
14 antitrust and has expressed concern that the balance has
15 tipped to give intellectual property inappropriate
16 weight. So, the question is how to determine whether
17 this is true, what to look at. I think it would be
18 appropriate to look at the 1995 Guidelines, it would be

1 conduct involving intellectual property as to conduct
2 involving any other form of tangible or intangible
3 property, while at the same time recognizing that
4 intellectual property has unique characteristics.
5 Secondly, the IP Guidelines explain that one
6 should not presume that intellectual property
7 necessarily confers market power, despite the fact that
8 courts historically presumed that intellectual property
9 rights give an intellectual property owner a legal
10 monopoly and market power. The ABA has taken such a
11 position and Charlie Baker, I think, has given testimony
12 to support this as well.
13 And thirdly, the IP Guidelines recognize that
14 generally licensing is procompetitive, but also
15 recognize that competitive concerns may arise where
16 licensing arrangements harm competition among entities
17 that would have been actual or likely potential
18 competitors in the absence of the license.
19 And we would also like to note that at the time
20 the IP Guidelines came out, the Intellectual Property
21 and Antitrust Sections submitted comments on these
22 guidelines. Some of the changes that we proposed were
23 incorporated into the guidelines, others were not; and
24 this testimony is not really intended to change anything
25 that was said with respect to those guidelines at that

1 time.

2 I think in terms of proposed changes, one thing
3 that the Antitrust Section would encourage is more
4 guidance. Not necessarily in the form of guidelines,
5 but more guidance with respect to a number of issues.
6 Again, they are stated in the written testimony, but
7 they are: If and when an intellectual property owner
8 may have a duty to deal or license? Whether
9 intellectual property may be an essential facility?
10 Disclosure in licensing obligations of firms involved in
11 standard-setting, and the appropriate analysis of
12 intellectual property settlement agreements.

13 While we don't expect clarity or perfect clarity
14 in these areas, we do think that greater guidance would
15 be helpful to eliminate uncertainty.

16 With respect to the guidelines themselves, we
17 have a couple of specific comments. One is that the
18 safe harbors in the IP Guidelines are inconsistent
19 with -- I'm sorry, one of the safe harbors in the IP
20 Guidelines is inconsistent with the safe harbor in the
21 April 2000 Antitrust Guidelines for Collaboration Among
22 Competitors. In the IP Guidelines, there is a
23 requirement in terms of determining reasonableness that
24 there be four or more independent entities that are not
25 parties to the license that compete in the respective

1 technology or innovation market. In the Antitrust
2 Guidelines for Collaborations Among Competitors, there
3 is a requirement of three or more, and we would request
4 some clarification there.
5 Secondly, we note that under the IP Guidelines,
6 the safety zone analysis may be applied not only at the
7 time of the license grant, but also at a later date. We
8 note the policy tension between ex-ante and ex-post
9 enhancements to enforcement and we suggest that that
10 might be an area for further consideration.
11 And finally, the section has previously
12 suggested and we continue to believe that an antitrust
13 safety zone for restraints and licensing arrangements
14 more permissive than the current 20 percent market share
15 safety zone is appropriate for licensing between parties
16 in purely vertical relationships. Both judicial
17 precedent and the federal agency's own policy statements
18 and other contexts support adoption of a 35 percent
19 threshold for potential market power concerns.
20 Finally, let me just say a word about the
21 Federal Circuit report that we had prepared and
22 submitted to you separately. The section had asked the
23 Intellectual Property Committee of our section, which is
24 currently chaired by Howard Morse, to look into the role
25 and scope of the Federal Circuit. This was before the

1 hearings was announced, and sparked, in part, by the
2 amicus brief of the United States opposing certiorari in
3 the Xerox case, where it was suggested that the Supreme
4 Court allow the difficult issues in that case to
5 percolate further in the Court of Appeals.
6 The report that we have prepared really is
7 divided into three sections, and I would commend it to
8 you. It was distributed separately to the hearings, but
9 it's also available on our website. The first section
10 provides quite a detailed review of the overview of the
11 history of the creation of the Federal Circuit, and I
12 think pretty well captures the tension that there was
13 when the Federal Circuit was created.
14 It can be argued, from the legislative history,
15 that Congress contemplated that the Federal Circuit
16 would have some role, perhaps some significant role, in
17 shaping antitrust law, in particular where antitrust
18 claims are based on patent prosecution practices or
19 certain types of licensing practices. But Congress also
20 expected the court to zealously guard against the
21 expansion of that role beyond areas implicating the
22 development of patent law.
23 The second section of the report talks about the
24 current state of the law on Federal Circuit
25 jurisdiction. It begins by analyzing the Supreme

1 Court's decision in Christianson, and it does include
2 reference to the Supreme Court's decision in Holmes
3 versus Vornado, which I am sure people will be talking
4 about at some length. It does not really get into what
5 are the implications in Holmes versus Vornado. I think
6 we all need to consider that, and I'm sure there will be
7 a great deal of speculation about that.
8 The third and final section explores the
9 development of the Federal Circuit's choice of law rules
10 in antitrust cases, both before and after Nobelpharma,
11 and, interestingly enough, it concludes that the choice
12 of law rules has over the years tended to be more the
13 choice of the Federal Circuit than of regional circuits,
14 but then it goes on to ask the -- I think the important
15 question, so what difference has that made? Has the
16 decisions of the Federal Circuit on antitrust/
17 intellectual property issues been within the mainstream
18 of antitrust law? The conclusion that the paper comes
19 to is that looking at the cases, that there are really
20 no significant indications in deviation from the
21 mainstream of antitrust analysis.
22 It cites three cases in part de , ttitokiaeCereurea cnw
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1 It concludes by saying that the Federal Circuit does
2 have a significant impact on the development of
3 antitrust law.
4 Finally, I would like to say that there are
5 other publications that the antitrust section has done
6 on the issue of the intersection of intellectual and
7 property law. There have been comments submitted on the
8 IP Guidelines, these are submitted jointly with the IP
9 section, I think I made reference to that. There is
10 also a publication that we have that talks about the IP
11 Guidelines.
12 In addition to the comments on market power
13 legislation, which I referred to, there are two other
14 things that were prepared this year that might be of
15 interest to the agencies as they pursue this endeavor.
16 One is the publication on the Economics of Innovation, a
17 survey. The other is the comments that the IP and
18 Antitrust Sections and International Section, also
19 submitted to the EC's Evaluation Report of the Transfer
20 of Technology Block Exemption, that might also be of
21 interest to you.
22 On behalf of the Antitrust Section, I would like
23 to thank you again for the opportunity to participate in
24 these hearings.
25 MS. GREENE: Thank you so much.

1 Bob? Oh, and please speak into the microphone
2 to make our court reporter happy.
3 MR. TAYLOR: All right. I am Bob Taylor and I
4 am appearing here as a spokesman for the Intellectual
5 Property Law Section of the ABA, in place of Mark
6 Banner, who was originally scheduled for this slot.
7 It's a privilege to be here, although I'm sorry that
8 Mark is ill.
9 I also have to make on behalf of the IP Law
10 Section the same disclaimer that Roxanne made on behalf
11 of the Antitrust Section. We are speaking only as a
12 section, and not as the ABA, and since I practice
13 actively in this area, I also need to state that what I
14 am about to say is my own views and those of the IP Law
15 Section, not necessarily those of my firm or its
16 clients.
17 The IP Law Section has chosen to address certain
18 issues related to the Federal Circuit and we have put in
19 a statement of our position with respect to that. I
20 thought I would take my time this morning and address
21 two of the three themes that are in our statement. The
22 statement covers, actually, three themes: Jurisdiction
23 of the Federal Circuit, choice of law decisions by the
24 Federal Circuit in resolving non-patent issues, and
25 then, finally, the deference that the Federal Circuit

1 has been and is paying to principles of competition law

2 in connection with the way in which it defines the

3 patent law right.

4 I am going to talk to the last two of those

5 issues, I know a number of other people are going to be

6 talking to the jurisdiction issues, the Vornado case

7 particularly and some of its implications.

8 I think it is safe to say that many

9 practitioners in the patent community have been troubled

10 by some of the writings that have been critical of the

11 Federal Circuit. Those who practice before that court

12 have been impressed largely with the quality of the

13 decision-making [illegible]

1 There are some examples. I think Professor
2 Dreyfuss, in one of her articles, flags a couple of
3 cases in which different courts dealing with the same
4 patent reached different conclusions. It was certainly
5 the case that every one of the circuits had its own
6 particular fingerprint as to how it would handle patent
7 cases. The American Patent Law Association, a
8 predecessor of the AIPLA actually kept statistics on the
9 circuits, and for a patent owner about to litigate a
10 patent, you could go to those statistics and see what
11 your batting average was likely to be on cases regarding
12 valid and infringed.
13 The Fifth, Sixth and Seventh Circuits were
14 attractive places for a patent owner to be, the First,
15 Second and Third circuits were very unattractive places,
16 and the other circuits fell sort of in between. That
17 was the environment in which the Federal Circuit was
18 created. It was a general perception of Congress that
19 if the patent system was going to achieve its full
20 potential, as an incentive to innovation, that something
21 needed to be directed, and the Federal Circuit was the
22 response to that need.
23 The Federal Circuit is -- has -- if you have
24 followed the evolution of the Federal Circuit,
25 particularly with respect to its deference to the

1 regional circuits, you find that it has been remarkably
2 willing to define its own role as one confined to Title
3 35. Very early in its history the Federal Circuit noted
4 that it would use the law of the regional circuit where
5 it made sense to do so, and that it would confine the
6 creation of a separate body of law to those issues that
7 were essential to a uniform application of Title 35.
8 Specifically, early in its existence, the
9 Federal Circuit singled out antitrust as one of those
10 issues where it planned to use the law of the regional
11 circuits. More recently, as Roxanne pointed out, and as
12 a number of commentators have pointed out, the Federal
13 Circuit has decided to create its own uniform body of
14 jurisprudence with respect to at least many of the
15 issues that are defining the interface between
16 intellectual property law and antitrust law. One of the
17 points that's made in the IP Section statement is that
18 the justification for that really can be found in the
19 passage of some 20 years.
20 Twenty years ago, when the Federal Circuit was
21 created, the recent jurisprudence on patents and
22 antitrust lay in the regional circuits. Virtually every
23 regional circuit had a rich body of law, many
24 intellectual property practitioners probably disagreed
25 with a lot of it, and indeed most economists, I think,

1 disagreed with a lot of it. Much of it was derived from
2 the concepts of the nine no-nos that had been
3 articulated by the Department of Justice quite
4 vigorously from the late '60s on, but every circuit did
5 have this body of law, and the Federal Circuit had
6 little or no experience of its own.
7 Without belaboring the point, I want to just
8 remind you all, though, that antitrust in the period
9 since 1982 has gone through a truly remarkable
10 transformation. I sat down last night and tried to
11 tick-off just some of the cases and I made a short list:
12 Copperweld, Spectrum Sports, Monsanto, Sharp, Kahn,
13 Cargill, Associated General Contractors. All have been
14 decided since the Federal Circuit was created and those
15 cases, by any measure, have made antitrust law today
16 unrecognizable to someone who let their subscription to
17 U.S. Reports expire in 1982.
18 In 1982, the Circuit Court, the regional
19 circuits were just coming to grips with Illinois Brick,
20 Sylvania and Brunswick, which also modified enormously
21 the rights of private plaintiffs to pursue antitrust
22 theories in Federal Court. And then finally, remember
23 that Dawson versus Rohm & Haas, SCM versus Xerox, United
24 States versus Studiengesellschaft also in that time
25 frame were redefining in a major way the relationship

1 between patent law and antitrust law.
2 That was the environment in 1982. At that point
3 in time, it may have made sense for the Federal Circuit
4 to look to regional circuit law. Today, 20 years later,
5 virtually all of the jurisprudence defining the
6 interface between patents and antitrust, because those
7 issues come up primarily in patent cases, virtually all
8 of that jurisprudence has had to come from the Federal
9 Circuit in an effort to apply regional circuit law.
10 It is against that backdrop and that fact, that
11 I think one finds legitimate reason why the Circuit has
12 decided to create its own body of law. The body of law
13 residing in the regional circuits is hopelessly out of
14 date. You may still, for example, find old cases in the
15 regional circuits that have never been overruled, in
16 which antitrust violations involving patents are
17 predicated on something such as vertical restraints of
18 trade, which you may recall were, per se, illegal
19 between 1967 when the Supreme Court decided Schwinn, and
20 1978, when it decided Sylvania. Those old cases have
21 never -- there just hasn't been enough volume of
22 litigation on these points to have caused them to be
23 overruled.
24 I commend to the two agencies, if you haven't
25 already done it, a reading of Judge Posner's decision a

1 couple of weeks ago in Scheiber versus Dolby
2 Laboratories, in which he is dealing with a license
3 agreement that Dolby Labs has moved to set aside because
4 it called for royalty payments that, although originally
5 contracted for at the suggestion of Dolby Labs, were to
6 extend over a period beyond the expiration of some of
7 the patents.
8 Judge Posner bemoans the fact that Brulotte
9 versus Thys, a 1964 Supreme Court decision in this area,
10 is still the only Supreme Court law on the books. He
11 finds the Seventh Circuit constrained to apply the
12 Brulotte case, even though modern economics and modern
13 views of patent law would suggest that it is no longer a
14 law that even the Supreme Court would follow. But since
15 it's the most recent pronouncement of the Supreme Court,
16 it is the one that he is constrained to apply.
17 Let me close out that portion of our paper and
18 turn now to the subject of competition law as a
19 backdrop. Many of the speakers that have written
20 recently on the interface between patents and antitrust.
21 Indeed, many of the speakers that have appeared during
22 these hearings have noted the desirability for balance
23 between patents and antitrust.
24 It's very difficult to speak in the abstract
25 against the reasonable concept of being balanced, but

1 I've never been quite certain what that means when you
2 talk about patents and antitrust. It seems to me that a
3 great deal of the reconciliation of patents and
4 antitrust has to start from the nature of the patent
5 system we've decided to have.
6 The decision to have a patent system is the
7 starting point, and we've defined the patent right in
8 terms of exclusivity. It is exclusive for a limited
9 period of time, and that exclusivity operates as an
10 incentive for innovation.
11 Now, you can debate as a matter of economics the
12 wisdom of having a patent system. Most of the debates
13 that have taken place, however, have come down in favor
14 of having one. But once you have a patent system, and
15 once you create the exclusive right, it seems to me that
16 a lot of the mechanisms of antitrust have to be set
17 aside in favor of that exclusivity.
18 If, for example, you examine the intent of a
19 patent owner, as many antitrust analyses would do,
20 you're very likely to find that the patent owner does
21 intend to have a monopoly. That's what the patent
22 system allows the patent owner to have, and indeed,
23 patent damages predicated on price erosion are
24 situations where the patent owner is actually saying to
25 the court, properly and lawfully, I am entitled to

1 monopoly profits because the law has given me a lawful
2 exclusive right.
3 So, I urge you to bear in mind that it is the
4 nature of the right to a very large extent that should
5 define the patent antitrust interface. There is a
6 powerful backdrop, however, of competition law that is
7 used by the courts to define the patent right. It goes
8 clear back to the Constitutional provisions that create
9 the patent and the copyright system as well. That
10 they're created for a limited purpose, to promote the
11 progress of science and the useful arts. And against
12 that backdrop, those Constitutional provisions make
13 their way into a number of judicial decisions over the
14 years.
15 I commend the decision in Graham versus John
16 Deere where the Supreme Court, in analyzing what
17 constitutes an invention, what constitutes obviousness
18 under Section 103 of the Patent Code, starts with the
19 premise that the patent system was created against a
20 backdrop of competition. You find this backdrop of

1 courts to create fair use under copyrights, the manner
2 in which the Federal Circuit has sought clear and bright
3 lines around the patent right, all of these are carried
4 out in the name of protecting the process of
5 competition.
6 Thank you.
7 MS. GREENE: Thank you very much. A lot of
8 information already on the table and we've barely
9 started. I want to give you all just two or three
10 minutes to respond to anything that we've heard in the
11 presentations thus far. We'll keep to the side the
12 jurisdictional and the choice of law issues that we're
13 going to be getting to later, and let me just open it up
14 for comments. If you have comments, turn up your table
15 tent, and then we'll just be throwing out random
16 questions.
17 One thing that I just want to flag is your
18 articulation of that patent law might result in -- this
19 is to Bob -- the mechanisms of antitrust law needing to
20 be set aside. I think that's a very interesting
21 articulation, and I don't know whether I'm getting
22 caught up in linguistics. Yesterday one of the things
23 that we discussed repeatedly was sort of linguistic
24 traps. At what point are they just sort of everybody
25 likes to play with words, and at what point are they

1 really the results of some interesting ideas?
2 So one thing I just hope we consider throughout
3 is the extent to which you are actually setting aside
4 antitrust law or antitrust principles or the extent to
5 which antitrust law evaluates a given situation and does
6 not see an antitrust problem with it. I think that the
7 result may ultimately be inaction or lack of
8 enforcement, but I think that the motivation or the
9 analysis might be different.
10 So with that just as my own personal interest,
11 let me throw it open to questions and comments.
12 MS. MICHEL: Let me ask a question along those
13 lines. When we're talking about the interface of
14 intellectual property and antitrust, my sense is that
15 the antitrust lawyers will sometimes come at it as this
16 is an antitrust question, and the patent lawyers come at
17 it with a sense of this is about the definition of the
18 right to exclude and it is, therefore, a patent
19 question.
20 Does anyone else have that experience or sense?
21 Exactly how should we -- or any suggestions -- ought to
22 approach the question? Because I think that fundamental
23 dichotomy underlies even some questions about choice of
24 law, what law the Federal Circuit ought to apply, and
25 even to what extent the Federal Circuit should be

1 involved in these issues.

2 MR. TAYLOR: Do you want me to try to answer

3 that?

4 MS. MICHEL: Yeah.

5 MR. TAYLOR: I've spent about 30 years thinking

1 system, but it was selling not something precisely
2 claimed. The Supreme Court decided that, in that
3 circumstance, the patent owner had used his patent to
4 affect commerce outside the precise scope of the right,
5 and, therefore, that was unlawful.
6 Somewhere between Mercoid and Data General
7 versus Grumman, which is a First Circuit case involving
8 a copyright on diagnostic software that was used to
9 promote the service business of maintaining computers,
10 and where there wasn't even a serious question raised as
11 to whether it was unlawful to use the copyright outside
12 the precise scope of what was protected. Somewhere
13 between those two decisions we started looking at it
14 differently, but I will tell you, I can't define the
15 point in time when that occurred.
16 MS. BUSEY: Suzanne, I would just like to
17 comment on that. I think actually Bob is correct and
18 you are correct, it does depend on where your
19 perspective is. First of all, I would like to say that
20 it's important to have hearings like this when both

1 Antitrust laws work around lots of different principles,
2 and one of them is the rights that are given to
3 intellectual property owners, but there are lots of
4 other statutory schemes that have to be taken into
5 account when you're dealing with antitrust issues. The
6 same thing can be said, perhaps, when you're looking at
7 an issue that involves the FERC. Do we come from
8 different points of view? Of course we do, but that's
9 the challenge -- to reconcile these two bodies of law
10 appropriately.
11 I guess I would note that we did make one
12 reference from the ruling of the Federal Circuit in our
13 report, where ultimately you have to come out,
14 regardless of where your perspectives are, and that is
15 simply, and I would quote, "Intellectual property rights
16 do not confer a privilege to violate the antitrust
17 laws."
18 So, there has to be some reconciliation. If you
19 start with a perspective that fao Tj T* (16 Tj T* (

1 reference to this, there was clearly a problem, and the
2 solution that was proposed and was adopted was a Federal
3 Circuit. But now you have a specialty court, in a
4 system that really doesn't have specialty courts.
5 That's fine, but you've got to figure out how do you
6 deal with that court, then. It raises all kinds of
7 problems, even though it solves some problems, and maybe
8 that's justification for it. I'm certainly not
9 proposing that anything be done to change that, but now
10 you do have other things you have to take into account,
11 because it is different, and it does create some other
12 issues that have to be addressed.
13 So, I would just encourage, I mean to the extent
14 we can have people like Bob Taylor and others who are
15 here that practice in both areas, that's got to be the
16 best.
17 MS. GREENE: Great. We're going to turn to our
18 next presentation, but before we do that, it's my
19 pleasure to introduce an old friend of mine and former
20 colleague, R. Bhaskar. R. Bhaskar has just joined us a
21 few minutes late. He is a Senior Research Fellow at
22 Harvard Business School, he has been there since
23 September of 2001. Prior to arriving at Harvard,
24 Bhaskar was on the legal staff here at the Federal Trade
25 Commission where he was concerned with the intersection

1 hearings, I want to touch briefly on the overall subject
2 of whether competition in IP law is different in a
3 knowledge-based economy. Then I want to talk briefly
4 about the topic of this panel -- jurisdiction of the
5 Court of Appeals and the Federal Circuit and here I may
6 spend some time on the Holmes versus Vornado case, since
7 nobody has mentioned that yet.
8 Finally I want to review the jurisprudence of
9 the Federal Circuit. I think you'll find I have
10 essentially the same thing to say as has already been
11 said, that it seems to me the Federal Circuit is
12 comporting with the Congressional intent to bring about
13 uniformity in the mainstream of current law at the
14 patent antitrust interface.
15 The reasons that are argued for exclusive rights
16 and interventions in creative works are the same, it
17 seems to me, in the knowledge-based economy as they are
18 in any other. The exclusive rights created by patent
19 law, copyright law, trademark law, are not so important
20 for people like inventors, it seems to me, as they are
21 for investors. The investor who could invest in real
22 estate could invest in old plants, or could invest in
23 new plants and make new jobs.
24 Just suppose you're on the board of a large
25 chemical company, and they've got in the lab a new

1 encourage investment to develop that method of doing
2 business and make its benefits available to all, it
3 seems to me that you should include it within the patent
4 system.
5 Another issue that sometimes perplexes me as a
6 practical person is the theoretician's talk about
7 blocking patents. In the real world, those seldom
8 arise. It's true that when a pioneer invention is made,
9 no one else but the inventor can use it. At that stage,
10 however, much development remains to be done and there
11 are not many people who want to use it.
12 I have in mind Chester Carlson's development of

1 Senate report refers to the patent claims involving
2 patent misuse being before the Court of Appeals for the
3 Federal Circuit.
4 There was a recent case which everyone is
5 talking about called Holmes versus Vornado. In that
6 case, the Supreme Court apparently narrowed the Federal
7 Circuit's jurisdiction, though the extent of that
8 narrowing is not yet clear. In that case the Supreme
9 Court held that the Federal Circuit lacked jurisdiction
10 over an appeal when the complaint raised no claim
11 arising under the patent laws, but the answer included a
12 compulsory patent law counterclaim.
13 According to Chief Judge Mayer of the Federal
14 Circuit, as reported in the National Law Journal, Holmes
15 is likely to limit the availability of the Federal
16 Circuit review and permit forum shopping. Both results
17 may return the state of the law to that existing before
18 the Federal Circuit's creation.
19 I don't necessarily share the Chief Judge's
20 belief that the Federal Circuit docket will be
21 substantially reduced as a result of Holmes versus
22 Vornado. Justice Scalia's decision in that case
23 referred to the Christianson versus Colt decision that's
24 referred to on page 15 of my paper, and it's got an
25 alternative basis in it, which I don't think people have

1 focused on yet. Let me read it for you: "The
2 plaintiff's well-pleaded complaint must establish either
3 that the federal patent law creates the cause of action
4 or that the plaintiff's right to relief necessarily
5 depends on resolution of substantial question of federal
6 patent law."
7 So, it seems to me that that arguably includes
8 Walker Process and Handgards claims, and Lewellyn's
9 claims for unenforceability under 271(d). It's even
10 been speculated by the -- I believe it's in your report,
11 Jim, although my recollection may be fuzzy on that, that
12 appeals from cases like the recent FTC decision in
13 Schering-Plough might abide to the CAFC under
14 Christianson, but that we can abide by the event.
15 The people who say that Holmes versus Vornado,
16 is going to change, will have an impact upon the Federal
17 Circuit's case load refer to the decision just on July
18 2nd. In that telecomm case in which the court
19 transferred an appeal that had been pending in the
20 Federal Circuit since the year 2000 to the 11th Circuit.
21 I think, if you analyze that, you'll find out that's not
22 going to be an important case in the patents area,
23 because there the antitrust defendant attempted to
24 justify its refusing a deal based upon trade secrets
25 rather than patents.

1 What if the defendant had asserted that his
2 conduct was exempt under 271(d)(4), because the
3 equipment was covered by a valid expired patents --
4 unexpired patents, would the Federal Circuit have
5 transferred the case back to the other circuit on that
6 case? I don't know, that's another thing to be
7 determined.
8 Now, in my paper I address a couple of areas of
9 law where it seems to me the Federal Circuit is
10 complying with the mainstream of patent law, and I won't
11 go into those in detail. I will say, though, that it

1 MR. GORDON: May I approach the podium?
2 MS. GREENE: Please, yes.
3 MR. GORDON: Let's see if I can get this thing
4 to work. Let me thank the agencies for giving me the
5 opportunity to express my views here and note that, like
6 the other panelist's today, the views are mine, they are
7 not those of my firm, Dechert or its clients.
8 I'm going to try to be quick to get us as close
9 to back on schedule as possible.
10 I would like to talk and cover three principle
11 areas this morning with respect to Federal Circuit
12 jurisdiction. The first, briefly, I want to talk about
13 how it is antitrust claims have gotten themselves before
14 the Federal Circuit, because I think that is the source
15 of some of the discomfort or concern from certain
16 members of the antitrust bar about the development of
17 any appellate jurisprudence by the Federal Circuit.
18 Secondly, I want to talk about where the law
19 stands vis-a-vis the Congressional mandate. Then,
20 finally just touch on at least my views on some of the
21 implications of all this for the development of
22 antitrust law.
23 Antitrust issues come before the Federal Circuit
24 in a variety of different scenarios, given the breadth
25 of arising under jurisdiction. Arising under

1 jurisdiction, as Charlie alluded to, requires either
2 that the claim be a creature of federal patent law or
3 the second prong of the test under Christianson that the
4 claim include a right to relief that requires the
5 resolution of a substantial question of patent law.
6 Given that, there are really three primary
7 scenarios in which an antitrust claim can come before
8 the Federal Circuit. The vast majority of antitrust
9 claims have come before the Federal Circuit in the
10 context of antitrust counterclaims to patent cases.
11 In that situation, given the existing statute,
12 and the legislative history, Federal Circuit
13 jurisdiction is fairly unassailable. There are also
14 situations where the antitrust claims come to the
15 Federal Circuit joined or consolidated with patent
16 claims, for example, an antitrust claim that might be
17 combined with a declaratory judgment action on validity
18 or infringement. Again, under the statute as written,
19 pretty noncontroversial for the Federal Circuit to
20 assert jurisdiction.
21 Antitrust claims can also come under
22 Christianson's second prong. That has not yet been
23 really a source of appellate court jurisdiction over
24 antitrust claims, but I think, as I'll mention in a
25 moment, that may change.

1 As Charlie mentioned, one way that antitrust
2 claims can no longer come before the Federal Circuit is
3 because a patent claim is pled in the counterclaim,
4 after there were not a decision. I think one of the
5 facts that has led to some of the concern by members of
6 the antitrust bar with respect to Federal Circuit
7 appellate jurisdiction is that the court can hear
8 antitrust issues and has heard antitrust issues even
9 when there is no longer a patent claim involved in the
10 case.
11 There have been cases where the Federal Circuit
12 has considered nonpatent issues where the patent claims
13 were dismissed with prejudice by stipulation, where
14 patent claims have been separated for trial. It's
15 raised a question among a number of members of antitrust
16 bars of whether or not in that situation, particularly
17 where the patent claims have been dismissed and/or are
18 not being appealed, whether it really furthers the
19 purpose and the goals of creating the Federal Circuit to
20 create uniformity in patent law for the court to be
21 ruling on and consider antitrust issues in that context.
22 Moving forward, in terms of the paths that
23 antitrust issues might take in the future to get to the
24 Federal Circuit, I think we may see a lot more activity
25 regarding Christianson's second prong. The court has in

1 the fairly recent past expanded its jurisdiction under
2 that prong, both in the context of claims based on the
3 bridge of a license agreement, and claims based on state
4 tort laws where the claim is premised on false
5 statements regarding patent rights.
6 There are a number of cases that are in the
7 trial courts now that I think will give the court an
8 opportunity to clarify how it is Christianson's second
9 prong is going to apply to antitrust claims. For
10 example, there are quite a few cases -- just quickly,
11 last night I was making a listing and came up with at
12 least a dozen in the pharmaceutical context where
13 private parties and purchaser classes had brought
14 antitrust claims against pharmaceutical companies based
15 on claims of sham litigation, Walker Process theories,
16 allegations of unlawful settlement agreements, akin to
17 the Schering-Plough situation.
18 A number of those cases raise interesting
19 questions with respect to whether or not the plaintiff's
20 right to relief requires the substantial resolution of a
21 patent issue. I think the sham litigation, fraud on the
22 PTO cases may present easier cases for Federal Circuit
23 jurisdiction. More interesting questions may be posed
24 by the cases where the claims really are based on either
25 largely unlawful patent listings in the FDA Orange Book

1 or in where the claims are based on allegedly unlawful
2 patent settlements.
3 One can easily imagine a number of other
4 scenarios, including cases related to patent pooling,
5 merger enforcement cases, where the right to relief may
6 turn on questions related to whether or not the
7 participants are horizontal competitors, which in turn
8 might require the resolution of a substantial question
9 of patent law with respect to the parties' intellectual
10 property portfolios.
11 Briefly, where does this all leave us with
12 respect to the Federal Circuit's mandate from Congress?
13 There's a little question that the Congress -- which was
14 attempting to create or achieve a balancing act in
15 creating the court -- the Congress did anticipate the
16 court would consider antitrust issues. I think there
17 had been some commentators that have mentioned that the
18 Federal Circuit has no business or no place developing
19 antitrust law. I'm not sure that's really supported by
20 the legislative history, but it's also true that
21 Congress expected the court to guard zealously against
22 unwarranted expansion of that jurisdiction.
23 The critics of the court tend to focus on the
24 legislative history, the snippets of legislative history
25 that speak to plaintiff's trying to grab jurisdiction in

1 the Federal Circuit by attaching patent claims to
2 antitrust claims. But, it's fairly clear from the
3 legislative history that what Congress was really
4 interested in there is whether or not plaintiffs were
5 trying to attach or parties were trying to attach
6 trivial patent issues to substantial patent claims.
7 And while there do remain, I think, possible
8 areas of tension post-Vornado, the fact is that from the
9 perspective development of antitrust law, I'm not sure
10 that any of these issues really have affected the
11 antitrust claims that have been considered by the court.
12 So, I think, you know, the fact is that most of the
13 court's antitrust appeals have fallen fairly clearly
14 within its jurisdiction.
15 Briefly, just turning to implications, maybe
16 some of which we can take up during the discussion
17 period, probably the primary area of debate has been to
18 what extent has the Federal Circuit undermined antitrust
19 principles or elevated patent principles at the expense
20 of antitrust principles? Critics often point to the
21 record of antitrust claims in the Federal Circuit, which
22 is quite poor.
23 The fact is that, when you look at the cases,
24 the evidence that there is any animus towards antitrust
25 principles in the Federal Circuit is not overwhelming.

1 There's a very strong argument that the holdings have
2 been in the mainstream of antitrust law. In fact, there
3 are certainly examples of situations such as the court's
4 decision in Nobelpharma, in C. R. Bard, where the courts
5 have upheld verdicts on behalf of antitrust claimants on
6 theories that have more often than not failed in other
7 circuits.
8 Much of the debate, I think it is true, has been
9 driven by dicta and not actual results, and really dicta
10 in a handful of cases, particularly CSU and Intergraph,
11 but to point out that the debate is driven by dicta is
12 not to diminish it. The fact is that Federal Circuit
13 dicta does have an impact. The Supreme Court does not
14 often review Federal Circuit antitrust decisions. In
15 fact, I don't know that it has ever reviewed a Federal
16 Circuit antitrust decision, and lower courts pick up on
17 the dicta. In the Townsend case, in the Papst case,
18 lower courts picked up on dicta from the Federal Circuit
19 and applied it in the cases before them.
20 So, there is a real concern, I think, among
21 members of the antitrust bar that concentrating
22 decision-making power in one circuit, even where that
23 circuit gets it right on the results, can skew or have
24 an adverse effect on the development of antitrust law.
25 Finally, let me just mention briefly, I think

1 the other area of debate and concern among members of
2 the antitrust bar from my view is the question of the
3 goals of uniformity versus the benefits of "percolation"
4 of issues in the regional circuits. That debate has, I
5 think, manifested itself most clearly and recently over
6 the debate of the impact of Vornado.
7 Many who looked to uniformity as being the
8 appropriate goal here are bemoaning the decision, while
9 those who, like Justice Stevens, see the opportunity for
10 some debate among the circuits as being a good thing,
11 have lauded it. And I think this really points out a
12 key institutional question on which the statutes are not
13 clear and the legislative history is not clear, and that
14 is: Who should be deciding this question of how the
15 patent laws and antitrust laws interrelate?
16 I think it's fairly -- it's one thing to say the
17 Federal Circuit is -- should be deciding issues with
18 respect to patent law doctrine. It's another thing to
19 say the Federal Circuit should be the only circuit
20 deciding issues with respect to the relationship between
21 patent law and antitrust law and how the patent law fits
22 into the wider mosaic of rights and obligations in our
23 legal system.
24 In terms of the impact on the agencies, I think
25 it's two-fold. Obviously enforcement actions and many

1 more enforcement actions have focused on IP-related
2 issues that are brought in the district courts may find
3 themselves before the Federal Circuit as they wind their
4 way through the courts. I have even heard it argued
5 that under 15 U.S.C. 45(c) there might be situations
6 where administrative actions and orders from the FTC
7 could be appealed in the proper circumstances to the

1 (No response.)

2 MS. MICHEL: Let me, then, start with a
3 question. I've always wanted to get a little deeper
4 into this concept of uniformity, and the Federal Circuit
5 being created in order to give more uniformity to patent
6 law. I was wondering about your perspectives on exactly
7 what that means. And I can think of two things that it
8 might mean, and it might mean others besides.

9 One would be that when we talk about uniformity,
10 we're talking about uniformity of legal rules and less
11 so about the application of the facts to those legal
12 rules. I think that's important because, if that's what
13 we mean, we can achieve that with a lower percentage of
14 patent cases going to the Federal Circuit. But if what
15 we mean is more predictability, as I think Mr. Baker
16 referred to, and what you really want is one court of
17 appeals deciding as many patent cases as possible, well
18 that might lead us to another place.

19 Could I get your perspectives on what is the
20 goal here, or are there any other goals that might be
21 possible in that debate?

22 MR. QUILLEN: Not to address the goals, but to
23 talk just a bit about uncertainty and predictability.
24 The fact of the matter is that prior to the Federal
25 Circuit, there was little difficulty in predicting the

1 outcome of a patent infringement case, particularly on
2 validity issues.
3 There were some differences between the circuits
4 in outcomes, as reported in Gloria Konig's book. One of
5 these days I hope to find the time to do an analysis and
6 see whether the differences, in fact, have any
7 statistical meaning.
8 Since the advent of the Federal Circuit, we have
9 introduced extreme uncertainty into the evaluation of
10 the validity issue. The mandated consideration of
11 secondary factors, coupled with the instruction that the
12 way to resolve the issue is to consider the evidence
13 collectively, has left us in the position where we know
14 from the statistics something on the order of 60 percent
15 of the patents in which there are validity decisions in
16 the Federal Circuit will be upheld as contrasted with
17 the 67 percent that were found invalid prior to the
18 Federal Circuit. But the ability to decide which ones
19 are going to be valid and which are not has been
20 substantially diminished. This, of course, was
21 illustrated in our Polaroid case, where we were adjudged
22 to have applied a patent clearance process that was a
23 model for what the law requires, and yet we were wrong
24 as to 60 percent of the patents that were litigated.
25 So, one needs to think about the differences

1 between predictability, uncertainty, what you mean. The
2 changes that we have made have resulted in a higher
3 percentage of litigated patents being held valid at the
4 Federal Circuit level, but substantially less ability to
5 predict outcomes.
6 The effect of the uncertainty, the inability to
7 predict outcomes manifested itself in increased capital
8 costs for innovation investments. So, it's not
9 something that is cost free to society.
10 MS. GREENE: Yes?
11 MR. HOERNER: If I might speak briefly to what
12 Bob Taylor said about the patent system. It is true
13 that what was written in the Constitution is a granted
14 authority, but that was against a backdrop of practices
15 by the King of England who would grant unlimited
16 monopolies to necessaries and to things that had already
17 been invented.
18 So, in many senses, the grant of authority to
19 issue patents in the Constitution was for the purpose of
20 limiting what we could do. You could only grant a
21 patent for limited times, and only to inventors, echoed
22 in many respects the statute of monopolies that was
23 passed by the legislature of England back in 1624.
24 My experience in 35 years, which of course is
25 limited to clients I worked for, suggests that most of

1 the companies that I know anything about would engage in
2 research and development about at the same level they do
3 now, whether there was a patent system or not. Because
4 they have to keep up with their competition, they have
5 to maintain products that will be bought by customers
6 rather than buying their competitors' products.
7 I think that the value of a patent is very often
8 to start-up companies who need financing. I think
9 people who grant venture capital want to see a patent,
10 and only incidentally, although it's very important,
11 when you have it, only incidentally in trying to keep
12 your competitors' products out of the market.
13 So, I think that a patent system is important,
14 but it's important because it allows the little start-up
15 companies, the folks with big ideas but small monies, to
16 get a foothold in commerce and to develop the kinds of
17 things that, for example, Xerox finally did.
18 MS. GREENE: Steve?
19 MR. KUNIN: This may be a little repetitive from
20 what was covered yesterday, but I think it's worth
21 repeating in view of the question that was raised in
22 terms of what is uniformity and consistency all about.
23 Yesterday, it was mentioned that one aspect of promoting
24 uniformity and consistency right now seems to be focused
25 intensely on claim construction because depending upon

1 claim construction, many times that will determine the
2 outcome of the case.
3 One of the problems is that it appears that you
4 don't know what the claim means until the Federal
5 Circuit tells you, because there's a lot of flipping of
6 the District Court's claim interpretation, and that what
7 appears to be the case now is that there is a large body
8 of judge-made law on how to properly interpret claims.
9 The question, I think, to some degree, is
10 whether while in the interest of coming up with certain
11 rules on how to interpret claims as to whether actually
12 the Federal Circuit has been consistent in the way in
13 which they've been applying those judge-made rules.
14 So, I think to some extent if after Markman,
15 since claim interpretation is a matter of law, so that
16 any circuit judge can say, well, the district court
17 judge, you know, can do what he or she saw fit, but
18 since this is a de novo determination, I can turn
19 everything around by howd by howd bynTu bynTu by e 18 sinc
is,somego bacsiry0yn terdnt in de s rends,sosaw fit, but

1 limitation on the claim.

2 There's been a whole body of law with respect to
3 transition clauses. So, is this an open claim versus a
4 closed claim? It's fairly easy when you've got words
5 like "comprising" and "consisting of" or "consisting
6 essentially of," because that's been developed over a
7 long period of time. But then you get words like
8 "having" or "including" and you find out that you find
9 that the court has said, well, sometimes it's
10 open-ended, sometimes it's closed-ended. It depends on
11 the facts of the case.

12 And then you get obviously into certain rules
13 with respect to the body of the claim and rules such as:
14 Broadest reasonable interpretation of the claim, the

1 here's a rule, has the definition of this term been
2 especially defined in the written description? The
3 applicant is his or her own lexicographer.
4 Therefore, in this case, you can't use the
5 ordinary meaning of the term, you must use a specialized
6 meaning of the term, because the applicant has created a
7 definition.
8 Well, in that particular situation, first you
9 have a rule, and then you look in the facts of the case
10 to determine whether, indeed, there's a special meaning
11 there that's applied. If so, then you follow the rule.
12 So, I think to a large degree my comment was
13 because I think Markman had a very significant impact
14 with respect to the normative process of determining
15 what are the metes and bounds of the protection, and
16 that is essentially strictly a matter of law, then
17 you've got to set up certain rules to go through that
18 process, and then once you know the rules, you can apply
19 them to the facts of the case.
20 Therefore, I think what we're finding is if
21 district court judges are going to be educated, and
22 those who write applications are going to be educated to
23 improve predictability, as Cecil was mentioning, then
24 you better understand what these rules are, so that you
25 can write the claims in accordance with the rules so

1 that they will be interpreted consistently with those
2 rules, and then at the end of the day you'll get greater
3 predictability. But the real rub is whether you have a
4 court actually being consistent. I think part of the
5 problem is we see to some degree panel-by-panel, or
6 case-by-case, that it's very hard to reconcile that the
7 rules are actually consistent or that the application
8 has been consistent.
9 MS. GREENE: Jim?
10 MR. KOBAK: I've got two or three, I'm afraid
11 somewhat random observations, but first of all, I just
12 want to clarify the record. Charlie referred to the
13 report as my report, it's really the report on the
14 Federal Circuit of the Antitrust Section, and it's
15 really George Gordon who was head of the task force that
16 prepared it. So, I just want the record to be clear on
17 that.
18 First of all, on the question that you asked
19 about uniformity, I think that you tend to focus a lot
20 on questions of validity and enforceability and so
21 forth, but I think there are other areas where having
22 one court has been very important, and one that I would
23 point to is the area of remedies -- the ability to get
24 injunctions, damages. I think the law in those areas
25 has been changed very profoundly by the Federal Circuit.

1 I think there's much more clarity and
2 predictability about what the rules are that might apply
3 to a certain situation. I think that's had a tremendous
4 impact on patent litigation because it gives people many
5 more incentives to litigate their patents than might
6 have existed 15 otea24.75 rh il r dore ok tSo,p7cBllllllllcllTh

1 antitrust lawyer, really not a subject that is an
2 appropriate subject for antitrust. I think antitrust
3 has to take the patent laws at more or less as it finds
4 them. I think that means that you have, as Bob Taylor
5 said, the right to exclude, which to my way of thinking
6 is a very fundamental aspect of a patent that antitrust
7 should be very, very loath to interfere with.
8 And, therefore, I'm not sure how I would come
9 out on a really pure refusal to license question, but --
10 and I think that probably everybody these days would
11 agree that just saying, well, someone has done something
12 outside the scope of their patent shouldn't be an
13 antitrust violation in itself. Maybe it could be a
14 misuse in some circumstances, because there's really
15 kind of a separate basis for that.
16 But I don't think -- I guess I differ with Bob
17 in that I think that antitrust has tools for looking at
18 restrictions that are put in licenses or other kinds of
19 restrictions, even if somebody has gone outside the
20 right to exclude, and I'm fairly confident that most of
21 the regional circuits can do a reasonable job of
22 applying law if there's bad precedent in their circuit,
23 I think that they look in other places.
24 If you look at the Kodak case, you may disagree
25 or not disagree with the way that case came out, but

1 certainly the Ninth Circuit didn't just look to Ninth

1 question. I won't take long.

2 When I was speaking about uniformity, I was

3 speaking about uniformity and structure, so that now we

4 have all appeals going to the same appellate court. So

5 you don't have as much forum shopping within district

6 court, you don't have courthouse games played. And

7 lawyers, while they might spend more time trying to

8 figure out what's going to happen when they get to this

9 single court of appeals, depending on which panel they

10 get -- as Steve mentioned. And they don't know that

11 until the morning the appeal is argued.

12 They don't spend as much time saying: Are we

13 going to sue on this side of the Missouri, in the Eighth

14 Circuit, or is it on that side of the Missouri in some

15 other circuit? So, there's no question that that degree

16 of uniformity is helpful in some ways.

17 MS. GREENE: Bhaskar?

18 MR. BHASKAR: In the Joy of Cooking there's a

19 really great description of the difference between

20 uniformity and consistency, and I found that a

21 meaningful point to start today. It seems to me that

22 although there are questions about legal process that

23 are uniform. For me, uniformity has always meant two

24 kinds of things. I speak now as an unbalanced computer

25 scientist. That is, there is a question of uniformity

1 of discipline, so that one of the questions is in 1980,
2 should computer science patents have been considered
3 differently from, say, drug patents or chemistry
4 patents? I'm prepared to argue that, in fact, there was
5 such a need for uniformity and distinguishing between
6 different disciplines.
7 However, an established discipline is different
8 from what was then considered an emerging discipline,
9 like computer science.
10 The second kind of uniformity it seems to me is
11 the institutional uniformity, particularly with regard
12 to international questions.
13 Among the various mailing lists, I regularly get
14 something called IP Health, which is -- as it turns out
15 on IP Health. The bulk of the people who write there
16 are people who live in the United States, and the bulk
17 of the issues there are international issues. The
18 proposition that I offer, not necessarily particularly
19 enamored of it, but I think I would like to understand
20 it, is that perhaps what we now have that we didn't have
21 in 1980 is a complex institutional structure, the WTO,
22 the WIPO, different kinds of remedies by different
23 regional and international groups. So, it seems to me
24 that maybe that's an issue: The Federal Circuit was
25 created at the dawn of a particular era, and now maybe

1 it's not the dawn anymore.

1 the time of the filing of the complaint.

2 The theory that I think the courts applied in

3 the context is you have to define how the patent issues

4 get out of the case. If the patent claims are withdrawn

5 voluntarily in the case, there's Federal Circuit

6 precedent suggesting that the court would not have

7 jurisdiction in that situation. But if the claims are

8 dismissed with prejudice, even if they're dismissed by

9 stipulation, there's authority suggesting that

10 jurisdiction would attach. The theory in some of the

11 cases seems to be that a dismissal operates as an

12 adjudication on the merits.

13 So, it doesn't really change the nature of the

14 case the plaintiff is bringing, itsykWkggesjhplayan

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1 One other thing that can be done, I think, on
2 this issue -- and Congress invited this in the
3 legislative history -- is for district courts to
4 exercise more discretion in severing patent and
5 antitrust claims, issuing partial final judgments under
6 54(b). It's not clear how the Federal Circuit, whether
7 or not the Federal Circuit would consider a partial
8 final judgment sufficient to decline to exercise
9 jurisdiction.
10 For example, if you had a partial final judgment
11 on a non-patent issue, in a patent claim, there are some
12 authority from the Ninth circuit suggesting that in that
13 situation, the appeal should go to the regional circuit.
14 But short of legislative fixes, there may be ways for
15 the district courts to operate to use some of the
16 procedural tools at their disposal.
17 MS. GREENE: Bob?
18 MR. TAYLOR: I guess the way that Suzanne framed
19 the question was whether there's a concern in having
20 Federal Circuit adjudicate these non-patent issues. I
21 guess I would simply remind you that the Federal Circuit
22 is an Article 3 court, they typically apply the law of
23 the regional circuit, they sit just like the regional
24 circuit would sit, and I don't know that anyone can make
25 a case for the proposition that you're going to get a

1 significantly different quality of adjudication or
2 quality of analysis in the Federal Circuit. The court
3 sits frequently with people from other courts sitting by
4 designation. The court has been pretty good about
5 bringing in trial judges, for example, to sit with it by
6 designation.
7 So, I don't think it matters. It seems to me
8 that the question is very similar to the question that
9 arises when a state law cause of action is joined to a
10 federal cause of action, which for one reason or another
11 is fully adjudicated, leaving only the state issues to
12 have to be resolved by one of the regional circuits, it
13 happens all the time, and I don't think anyone is
14 troubled by it.
15 MS. GREENE: Matt?
16 MR. WEIL: Well, we're getting toward the end of
17 this period, so I am going to accuse Bob of reading
18 notes over my shoulder.
19 The problem really is what does the court do
20 with that case which lies outside the mainstream of its
21 jurisdiction once it gets there? The question is: Is
22 the court going to apply its own law or is it going to
23 look to regional circuits?
24 So just foreshadowing my own comments later in
25 the afternoon, I think when you ask the question is

1 there a problem, as Bob has just said, if the court
2 exercises its capacity to look to other circuits and
3 adopt and apply their laws, or even to formulate an
4 approach consistent with the regional circuit, the
5 answer is going to be no, that's not a problem. The
6 question is when the court reaches out and says, now
7 this is swept within our particular jurisdiction, and
8 we're not only going to entertain the question, but also
9 apply our own law to it, then you have at least a
10 theoretical question of whether that's at odds with the
11 way our system is in other ways structured.
12 MS. GREENE: Okay. You all get to vote. I'm
13 looking at Bill when I say this, we can either take a
14 five-minute break or just continue on through to 12:30?
15 It's up to you all, I say we just continue.
16 Okay, George?
17 MR. GORDON: Just to respond briefly to Bob's
18 comment, I don't disagree that there's no reason to
19 believe that the quality of judging on the Federal
20 Circuit is any different than the judging you get on the
21 regional circuits. I think the issue again goes back to
22 the institutional question of the fact that there's a
23 concentration of decision-making authority in the
24 Federal Circuit. The fact that you have antitrust
25 issues going up there when there's no patent issues

1 just, I think, exacerbates that issue, particularly in
2 the context where you have obviously a trend in the
3 court to applying its own law to more and more antitrust
4 issues. Not only issues related to Walker Process, but
5 also now refusals to deal.
6 What this does is it deprives the regional
7 circuits of the opportunity to develop views and express
8 views on some of these topics. It deprives, I think,
9 the system of the benefit of getting a multiplicity of
10 views on some of these issues. So, it's not a problem
11 with the Federal Circuit per se, as a federal circuit
12 hearing these issues, it's a problem that we have one
13 court hearing these issues. I think that's the concern
14 that many in the industry have expressed.
15 MS. GREENE: Cecil?
16 MR. QUILLEN: Without intending to sound
17 critical of the Federal Circuit or suggest that you get
18 a lesser quality adjudication there, it is a specialist
19 court. It does have a limited jurisdiction. When it
20 reviews antitrust cases, it's an unusual thing for the
21 Federal Circuit. Whereas the regional courts of appeals
22 have much broader jurisdiction, the breadth and
23 experience that the judges bring to their work is
24 considerably broader than the breadth of experience that
25 happens at the Federal Circuit.

1 That might or might not result in a lower
2 quality adjudication. I express no view on that
3 subject.
4 MS. GREENE: Nothing is noted, then.
5 (Laughter.)
6 MS. GREENE: Rochelle?
7 MS. DREYFUSS: I have a question. Do people
8 think it's at all helpful for the Federal Circuit to be
9 seeing more antitrust cases? I think for two reasons
10 one might say yes. One is that they are inevitably
11 going to have some of them and having a few more in some
12 other context, not just ones that sort of come up in
13 very specific patent cases some might argue would be
14 helpful.
15 The second is actually addressed to Bob Taylor,
16 you mentioned the fact that all of these intellectual
17 property laws have their own ways of dealing with
18 competition. I wonder whether there are not some
19 spillovers so that seeing more antitrust cases actually
20 has an influence on the way that the court thinks that a
21 patent is used or some of the other areas and whether
22 people have feelings about that.
23 MS. GREENE: Bob?
24 MR. TAYLOR: Yeah, I do think that the Federal
25 Circuit, because there has been something of a

1 re-assertion of antitrust, if you will, in the last few
2 years, that had lain somewhat less active for a period
3 of time. I think the Federal Circuit will be seeing
4 more antitrust cases, and I think with the opportunity
5 to study those antitrust cases, you will see that court
6 develops very much along the same lines as the regional
7 circuits have with respect to their antitrust
8 jurisprudence, which goes back way, way longer than the
9 20 years that the Federal Circuit has sat there.
10 I find an interesting decision to be the C. R.
11 Bard versus M3 case, where the panel affirmed the
12 finding of an antitrust violation arising out of a
13 design decision by C.R. Bard. In the denial of the
14 petition for rehearing in that case, Judge Gajarsa takes
15 special note of the fact that don't read too much into
16 this decision because we didn't have a fully developed
17 record here. That to my mind is precisely the kind of
18 cautionary note that reflects this growing experience
19 with antitrust.
20 I said earlier that I think some of the
21 questions, or many of the antitrust questions do get
22 resolved out of simply recognizing the exclusionary
23 power of a patent, the exclusionary right that attends a
24 patent. But I didn't mean to suggest, and a couple of
25 other commentators have made the point, I did not mean

1 to suggest that there will not be many, many serious
2 antitrust questions that do get presented to that court,
3 and I think it is going to have to develop the
4 expertise, but I think it is, in fact, doing it.
5 MS. GREENE: Jim?
6 MR. KOBAK: If you take the Xerox case, you have
7 the Federal Circuit applying its law to the refusal to
8 deal question involving patents, yet in the same case,
9 you have a copyright or copyrights and essentially the
10 same question, and then the court has to say, well now
11 we're looking at the Tenth -- I guess it was the Tenth
12 Circuit -- rather than our own law, yet, of course, they
13 come out their own way.
14 But that suggests to me that regional circuits
15 might have experience in areas beyond patents that the
16 Federal Circuit wouldn't see so much of, and that it
17 might be better for the Federal Circuit to look to that
18 body of law rather than to try to develop their own.
19 Having said that, I think before the Federal
20 Circuit changed its choice of law rule in Nobelpharma,
21 it was at least in theory looking at regional circuit
22 law, yet it would sometimes find that there wasn't so
23 much law in any particular circuit, so it would have to
24 do some kind of effort of synthesizing and assimilating
25 law from all over the place. It seems to me that's what

1 will happen in the future, but I guess if I were drawing
2 on a clean slate, I would say that it might be better to
3 have the regional circuits, because they can look at
4 refusal to deal licensing questions involving patents,
5 but they can also get experience in other areas to
6 perhaps a greater extent than the Federal Circuit would.
7 MS. GREENE: Charlie, the moment passed for your
8 comment?
9 MR. BAKER: It did.
10 MS. GREENE: Roxanne?
11 MS. BUSEY: I just wanted to make an observation
12 and again show maybe a little different perspective
13 between the intellectual property bar and the antitrust
14 bar. The intellectual property bar has obviously
15 supported the Federal Circuit in the belief that a
16 single court for determining patent issues is
17 appropriate. I would be very surprised if the antitrust
18 bar would ever want a single court, whether it's the
19 Federal Circuit or not, to be deciding antitrust cases.
20 The antitrust bar, I think, supports percolation and
21 multiple jurisdictions. Knowing all of the problems
22 associated with that, they would rather have those
23 problems than the problems you might have if you had a
24 single antitrust court.
25 MS. GREENE: Bhaskar?

1 MR. BHASKAR: I guess I want to repeat what
2 Cecil and Roxanne just said, only not so well. It seems
3 to me that we are stuck with this really odd situation.
4 If, as I am childishly hoping, we find out that the
5 WorldCom situation or the Enron partnerships involved
6 substantial fraudulent manipulation of patent
7 applications, patent claims, and so on, things that
8 involved ownership questions, things that involved claim
9 construction questions. I would be really interested in
10 seeing how the law gets applied, and where the cases end
11 up, because there will be questions of claim
12 construction.
13 The second thing that I do think is that we seem
14 to be in this odd situation of saying we don't need --
15 we don't have science courts, so we don't have
16 specialists, judges or anything, except immigration
17 judges in the administrative sphere, and then we say,
18 when we have something that seems to require a

1 where you should see that more than once issues come up
2 that people outside of some arcane discipline or the
3 other might not feel quite up-to-date.
4 MS. GREENE: Charlie?
5 MR. BAKER: I wanted to comment on Roxanne's
6 tRoxre9-eI wao-date.

1 section 103 reiterating each time the high standard for
2 patentability that was promulgated in Graham and Adams.
3 So, this was a slander on the Supreme Court that
4 was propagated by somebody during the course of the
5 legislative debate.
6 MS. GREENE: Well, okay. Bob? We're going to
7 add yet one more issue to the table, Bob is going to
8 talk about patent misuse, and even though when it comes
9 to patent misuse we don't have any burning
10 jurisdictional question as to whether or not that would
11 fall within the purview of the Federal Circuit, there
12 are certainly questions being raised by the development
13 of the doctrine now that it's ensconced within that
14 circuit.
15 MR. HOERNER: Thank you, Hillary.
16 I suppose I have to begin with the usual
17 disclaimer that I speak for myself and not for my former
18 firm, Jones Day Reavis & Pogue and not from my clients
19 past and I hope, from the standpoint of my pension,
20 future.
21 The topic assigned to me for these hearings is
22 patent misuse. I am sure that most of you are generally
23 familiar with the doctrine. If not, its history and
24 antecedents can be found in a monograph, Intellectual
25 Property Misuse: Licensing and Litigation. The types

1 of practice held to be or evaluated as possibly being
2 patent misuse are cataloged in a 1991 article which I
3 wrote which appears in 59 Antitrust Law Journal
4 entitled, Patent Misuse: Portents for the 1990s.
5 Actually, however, it may well be that this
6 topic is an anachronism. In a series of cases beginning
7 in 1988, the Federal Circuit appears to have effectively
8 abolished the doctrine at least as it concerns so-called
9 extension of the monopoly misuse. A decision less than

1 until purge. No wonder, then, that patent misuse and
2 the permissible bases for finding patent misuse have
3 created controversy for over half a century.
4 The "misuse of the patent" doctrine originated
5 by name in a 1942 case, Morton Salt versus G. S.
6 Suppiger Co. There Morton Salt sued a direct infringer
7 of its patent covering a canning machine. Morton
8 required its licensees, which did not include Suppiger,
9 to use salt tablets purchased from Morton. While the
10 Supreme Court expressed concern that Morton might be
11 using the patent code as a means of restraining
12 competition in salt tablets, it refused to consider
13 whether Morton's licensing practices violated Section 3
14 of the Clayton Act, since it considered that Morton's

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1 had little to do either with economics or with
2 antitrust. It rested on the fact that Morton was trying
3 to exclude its licensees from engaging in salt tablet
4 commerce when salt tablets were not included in its
5 claims.
6 Here is where the controversy with respect to
7 patent misuse arises: Many practitioners, law and/or
8 economics professors, government antitrust enforcers,
9 and even judges, think that patent misuse is a sort of
10 junior level anticompetitive practice which didn't make
11 the antitrust violation big leagues and so is awarded
12 only patent misuse nomenclature as a consolation prize.
13 They feel, however, that the possible results of
14 a finding of the patent misuse -- unenforceability until
15 purge; standing not required; competitive injury not
16 required; vague contours of the doctrine based, as it
17 was, in part on the doctrine of unclean hands;
18 permissible assertion of patent misuse by an infringer
19 who suggested the infringing clause, which was the
20 situation in Judge Posner's recent case; patent
21 expiration before purge or, worse, before the patent
22 owner even recognizes that the purge is necessary, et
23 cetera -- are so draconian that, despite Morton Salt,
24 patent misuse should be limited to use of the patent to
25 violate the antitrust laws.

1 The Supreme Court back in 1918 said that if a
2 patent is "worth the price, whether of dollars or
3 conditions, the world will seek it." Why, therefore,
4 can a patentee not demand consideration from its
5 licensees broader than the scope of his right to
6 exclude, if the licensee is willing to exceed to the
7 patentee's demand, and the patentee judges that the
8 terms will not violate the antitrust laws? In my view,
9 that is where the battle should be fought.
10 Set out in the end notes are several, I think
11 there are 11, licensing demands which might be

1 patent to violate the antitrust laws.
2 It is for that reason that I suggested that
3 patent misuse, at least of the extension of the monopoly
4 type, may have become an anachronism. The Federal
5 Circuit cases suggest that the larger question is not
6 what license terms should be considered patent misuse,
7 but whether there should be a patent misuse doctrine at
8 all.
9 The Supreme Court did not require the Terminal
10 Railway Association to allow traffic to pass without
11 charge over its bridge after it violated the antitrust
12 laws. I might add that Northern Pacific was not
13 required to let people drive their trains down its
14 tracks free of charge after it had found to violate the
15 antitrust laws.
16 The Supreme Court in Terminal Railway
17 Association said instead that "one of the fundamental
18 purposes of the statute, 15 U.S.C., section 2, is to
19 protect, not destroy, the rights of property."
20 The Supreme Court has never approved forfeiture,
21 dedication, or royalty-free licensing in a government
22 antitrust decree. A patent is granted as of right, once
23 a novel and useful invention is disclosed and enabled.
24 If a court takes away the patent owner's rights to
25 enforce the patent, the patentee nevertheless has no way

1 to retract his disclosure. Neither the antitrust laws
2 nor the patent laws expressly permit forfeiture of a
3 patent because of the antitrust violation. Title 35
4 only states what cannot be found misuse, not what is
5 misuse.
6 So, courts that created this judge-made doctrine
7 can surely uncreate it. Why should a private party be
8 entitled to relief not available to the government if it
9 proves an antitrust violation? On the other hand, the

1 the legislative history of 271(d), which consisted of
2 hearings in 1948, 1949 and 1951, I conclude that it
3 clearly does. That article is entitled, "Is Activity
4 within the Subsections of 35 U.S.C. Section 271(d)
5 Protected from a Finding of Antitrust Violation," that
6 appeared in the April 1992 issue of the Journal of the
7 Patent & Trademark Office Society.
8 Unless "illegal extension of the patent right"
9 in 271(d) means no more than misuse as also used in
10 271(d), which would make it redundant, not a favored

1 presentation. Excellent presentation, and I just want
2 to add, as a housekeeping note, that we have a few extra
3 copies of your presentation that are on the back table
4 that you were kind enough to bring. More importantly,
5 we're going to have everybody's presentations in total
6 up on the web very shortly. We'll have their slide
7 presentations up, any articles that they submit, the
8 papers to which Roxanne referred, all of those things
9 will begin being posted today after the hearings, and as
10 they come in to us.
11 Are there any responses either to Bob's
12 interpretation of patent misuse and its evolution? I
13 also want to put back on the table, because I would like
14 to continue the discussion that we had before the
15 presentation about jurisdiction, the issue of the FTC's
16 administrative actions being appealed.
17 Charlie said that question can "abide" for a
18 while, I think was your word.
19 MR. BAKER: Gordon seems to have studied it more
20 than I have.
21 MS. GREENE: I know, so I am curious for both of
22 your impressions, and also to bring in Bob's
23 presentation.
24 MR. GORDON: Well, I guess --
25 MS. GREENE: What are your preliminary thoughts?

1 How is that for putting you on the spot?
2 MR. GORDON: 15 U.S.C. 45(c), which is the
3 statutory provision that provides for appeals of FTC
4 orders, speaks in terms really of geography. This isn't
5 surprising, because it was written before the Federal
6 Circuit was created. Many have argued that if you look
7 at the text of that, for that reason, FTC orders ought
8 not to be properly appealed to the Federal Circuit.
9 I have heard it argued -- without adopting the
10 argument, or disavowing the argument at the moment --
11 that one should look at the geographic coverage of the
12 Federal Circuit to be nation-wide. Therefore, in terms
13 of applying 45(c), and looking to where the allegedly
14 offending practice had an effect, or where the business,
15 or where the respondent does business, one should
16 consider the Federal Circuit to encompass the entire
17 United States.
18 So, that's the argument I have heard, although I
19 have also heard very strong arguments to the contrary.
20 Forty-five U.S.C. was meant and intended to allow for
21 appeals of the commission or as to the appropriate
22 regional circuits, and not to the Federal Circuit, and
23 45 U.S.C. -- 45(c), rather, was not amended on the
24 creation of the Federal Circuit, and so therefore
25 shouldn't be read to allow for jurisdiction in the

1 Federal Circuit.
2 MR. HOERNER: I might raise one question about
3 my own presentation. In 35 U.S.C., section 271(d),
4 includes as one of the things that you can do and not be
5 accused -- not be found guilty of misuse or illegal
6 extension of the patent right, (4), refuse to license or
7 use any of the rights of the patent.
8 I would be interested to know what the feelings
9 of the group are on whether that means simply a naked
10 refusal to license, period, or whether it can include a
11 refusal to license on conditions: I refuse to license
12 you unless you agree to fix prices with me. I refuse to
13 license you unless you agree not to send your licensed
14 product to Brazil, where I have no patents. I refuse to
15 permit license unless you pay me royalties for 30 years.
16 If it means more than just a flat refusal to
17 license, it seems that it would swallow up all of misuse
18 law and a large part of antitrust law. I wonder if any
19 of you have thought of that question and have a view on
20 it.
21 MS. GREENE: I know, Bob, your tent is already
22 up, so why don't you either respond to that or make your
23 prior --
24 MR. TAYLOR: It's difficult to respond to that,
25 because it is one of those many open questions that one

1 vegetables that dropped salt tablets in them. You just
2 don't know. I don't know. I think most of the cases
3 don't address that question. So, I would not say that
4 it did.
5 I would say this: There is a case out in
6 California where a federal judge said that, well, we
7 don't think that these 4 and 5 apply here because the
8 Congress originally tried to say, in general, that a
9 patent doesn't convey market power, and it refused to
10 pass that. But the issue there is what did 271(d),
11 which was passed in 1952, mean as to whether it covered
12 antitrust violations as well as misuse? I think it's
13 very clear you have to look at the opening language of
14 271(d) to determine whether all of the subsections give
15 you protection against a finding of an antitrust
16 violation and not just a finding of misuse.
17 MS. GREENE: Jim?
18 MR. KOBAK: I just have a couple of comments.
19 First of all, if you really want to get to the origins
20 of misuse, there's this long dissenting opinion by the
21 first Justice White in Henry v. A. B. Dick back in 1917.
22 I am very proud of myself because I just went back and
23 read it and looked it up and so forth. It is very
24 interesting, and it does develop, and there was kind of
25 an alternate strain to explain the misuse doctrine,

1 which really has nothing to do with antitrust. But it
2 was based on the theory that a patent gives you very
3 limited claims -- you go in and somebody makes an
4 examination, and then if you come along and insist on
5 license terms that go along with maybe including things
6 that they had to give up in the examination process,
7 it's kind of a distortion of the system to allow that.
8 That's really something that's not
9 antitrust-based, and I don't think one should completely
10 lose sight of that background, whether or not one agrees
11 with it or not.
12 On the 271(d) question, particularly the last
13 question about whether refusal to license would also
14 embrace all kinds of restrictions on that right, I think
15 that it's pretty clear, as I recall the legislative
16 history, that there was a whole laundry list of
17 restrictions that were part of the bill that were
18 supposed to all be -- were all going to be said not to
19 be misuse or not to be misuse without a showing of
20 market power. They all got dropped out of the bill
21 except tying. So, that to me means that the only kind
22 of restriction Congress really meant to exempt was
23 tying.
24 The final point that I would make is that I
25 think we would all agree that rightly or wrongly misuse

1 has largely dried up in the patent context, but one

1 MS. MICHEL: No takers, okay.

2 MR. GORDON: Excuse me, I'm not sure if you look
3 at the statute itself, there is any specific reference
4 to jurisdiction over FTC orders. The thing of it is
5 that there's no mention in, I guess, 1291 or 1292 either
6 in terms of the jurisdiction of the regional circuits to
7 jurisdiction over FTC orders. That's why I come back to
8 15 U.S.C. 45(c), that's really, I think, the authority
9 with respect to the effect of statutory jurisdiction
10 over FTC orders.

11 MS. MICHEL: But in the sense of the Federal
12 Circuit as being a court of limited and specific
13 jurisdiction, do you have any opinion on whether or not
14 it would be necessary to find a source of Federal
15 Circuit jurisdiction in its own statute before the court
16 could exercise that jurisdiction?

17 MR. HOERNER: I would think so.

18 MR. WEIL: Let me throw the question back to
19 somebody who could help me as a complete neophyte in
20 that licensing situation. What has been the experience
21 so far? Has anyone tried to take appeals to the Federal
22 Circuit from the Commission?

23 MS. GREENE: Any thoughts?

24 MS. MICHEL: Or does anyone recall the situation
25 following the Commission -- it was not a Commission

1 decision, but ALJ decision following the VISX/Summit
2 case? I don't remember exactly the situation, but were
3 there any lobbying efforts on this issue, specifically?
4 (No response.)

1 infringer would have prevailed at trial. This obviously
2 would raise questions of the validity of infringement,
3 enforceability, et cetera.
4 This has actually been litigated and has come up
5 in the context of cases that have been filed in the
6 Cipro litigation in state court, and then the defendants
7 had it removed the Federal Court on the theory that the
8 plaintiff's right to relief requires resolution of the
9 patent claims for the reasons I had mentioned earlier.
10 Most of the courts concerned and most of the Federal
11 Courts concerned have sent the cases back to state
12 court. However at least one court has, because of the
13 way the case was pled in the Cooney v. Barr Labs case,
14 accepted Federal Court jurisdiction over the claim.
15 So, I think in terms of the cases that are out
16 there, now that I'm aware of, anyway, that those are
17 really the cases that present, I think, the most
18 interesting question that are kind of in a gray area
19 with respect to jurisdiction. As opposed to the sham
20 litigation and Walker Process claims, in which I think
21 the question is a little easier.
22 MS. GREENE: Matt?
23 MR. WEIL: I litigated a case that settled
24 before it got to trial, an attorney malpractice case, in
25 which the case would have turned on very interesting

1 questions of patent law, and we could not figure out a
2 way on God's green Earth to get it in front of the
3 Federal Circuit. At that time, at least, there was no
4 precedent that we could point to that would have -- even
5 though we were in the district court on diversity, would
6 have gotten us there.
7 So, I think there are other cases where the
8 rubric is either state law or jurisdiction completely
9 alien to the patent law, but that patent law is really
10 embedded in it. Those cases don't seem to make their
11 way to the Federal Circuit.
12 MS. GREENE: Cecil?
13 MR. QUILLEN: From my prior life, it was not at
14 all unusual for a breach of a patent license lawsuit to
15 be brought in state court, and for the defense to be
16 that the patents you were seeking to enforce are
17 invalid. So, if you were not in a position to remove,
18 you were parked in state court and the state court the
19 case was tried in and was going to have to resolve
20 issues of validity and infringement.
21 So, patent issues have been in a lot of
22 different courts through the years.
23 MR. TAYLOR: Which actually prompts a question
24 that I would have for George, why would you treat the
25 settlement situation any differently than the patent

1 license cases that Cecil was talking about? It's

1 infringement issues: The plaintiffs can show that,
2 perhaps, the parties could have -- the infringer could
3 have entered earlier because the parties would have
4 entered into some less restrictive licensing arrangement
5 or, perhaps, the alleged infringer would have entered
6 even with the pendency of the infringement litigation.
7 So, there would have been earlier entry, even if
8 the infringer hadn't won the infringement litigation.
9 So, they found other ways around the issue, which might
10 not be applicable to the license agreement, or in
11 license agreement cases.
12 MS. MICHEL: A lot of the commentary we received
13 recently about Federal Circuit jurisdiction in the
14 antitrust area made statements along the lines of the
15 expanding jurisdiction and expansion of Federal Circuit
16 jurisdiction. I'm hoping that we can impact that
17 statement a little bit and get a handle on what we mean.
18 Is there a sense out there that the
19 jurisdictional analysis has changed somewhat? Or is
20 what's going on is we're seeing just more and different
21 kinds of cases and wrestling with them and realizing
22 that the statute sends more cases to the Federal Circuit
23 than maybe it did or did not contemplate?
24 MR. KOBAK: I'll take a stab. I think in the
25 Nobelpharma case, the Federal Circuit had this Walker

1 Process sham litigation question, and at that time it
2 was looking to regional circuit law. It had to look for
3 Ninth Circuit law on what fraud was and it ended up
4 saying: Gee, the Ninth Circuit has this rule that an
5 omission isn't fraud, but an affirmative statement is,
6 which didn't seem to make a lot of sense, given the
7 policies and the facts involved.
8 So, when it took the case en banc and applied
9 its own choice of law, it didn't have to follow that
10 distinction and probably made a more sensible decision.
11 I kind of think that around that time it began to see
12 similar issues, for instance in the state law context,
13 where again there would be questions of if this guy is
14 making a statement that's actionable, it has to be
15 because he's saying the patent's enforceable and it's
16 not enforceable or infringed when it's not infringed,
17 and there's no way that anybody can decide that unless
18 they apply patent law.
19 So, therefore, there's a whole world of cases
20 that we ought to be getting. I think from that, they've
21 even gone on and found procedural issues that are
22 related with those substantive issues, so they've
23 sometimes applied their law to those as well.
24 So, I think there has been an expansion. I
25 think a lot of it has been dictated by questions of

1 patent law that maybe, originally, you wouldn't perceive
2 as necessarily being implicated in these cases, but over
3 time you realize that it is. On real patent-related
4 questions, it maybe makes more sense for the Federal
5 Circuit to apply its law rather than having to look at a

1 MS. GREENE: George? Excellent question.
2 MR. GORDON: Jim, if you have a specific
3 response.
4 MR. KOBAK: I suspect that's the case, but I
5 can't prove it.
6 MS. DREYFUSS: It's implicit in what you said,
7 but I just wanted to make sure I understood it.
8 MR. GORDON: With respect to the question of
9 whether the jurisdiction's been expanding. My sense is
10 that it's not expanding in the sense that the court is
11 changing its law on jurisdiction, with the single
12 exception of I think of the jurisdiction over breach of
13 contract cases in which there may be a change. As Bob
14 mentioned, there was plenty of case law in the past
15 where the court has suggested that it does not have
16 jurisdiction over those cases, and that may be changing.
17 But I think what might be meant by standing is it's
18 simply expanding in the sense that new situations are
19 arising in which the court is asserting jurisdiction soy0niny0ni

1 cases where the counterclaim was set under section 1338
2 in the district court, and that has ended with Vornado.
3 So, at least some of the concerns that I've seen
4 written and expressed about expanded jurisdiction may go
5 by the boards with the Vornado ruling, but in addition
6 the Federal Circuit. The jurisdiction of the court
7 itself has really not been changed, and the Federal
8 Circuit has been the primary court in defining its own
9 jurisdiction. But fortunately, the regional circuits
10 have recognized that it doesn't make a lot of sense to
11 have 12 different courts trying to articulate rules for
12 establishing the jurisdiction of what is the Federal
13 Circuit. But I think their jurisdiction is fairly
14 stable.
15 MS. GREENE: Thank you. Are there any last
16 comments? We have a minute or two left before we break
17 for lunch, and in particular if anybody has additional
18 comments on the Holmes case. We've heard various
19 perspectivecase.the rae(m?sagalFaivec) qutabnalsf whTj 0 -24

1 with the issues?

2 Bob 2 c1 c1 hssues?

1 AFTERNOON SESSION

2 (2:00 p.m.)

3 MR. KOVACIC: I'm Bill Kovacic and I'm the
4 General Counsel of the Federal Trade Commission. On
5 behalf of the Department of Justice Antitrust Division
6 and the Commission, I want to welcome you back to the
7 resumption of the hearings this afternoon. We're not
8 only extraordinarily grateful to all of our participants
9 for the magnificent contributions they've made to this
10 undertaking since we began it early this year, but
11 especially grateful to the panelists who graced our
12 building yesterday and indeed today.

13 This afternoon, I have the special pleasure of
14 introducing the remarks of Judge Ellis. In the 15 years
15 in which I've taught in law schools in the Washington
16 area, I've come to know of Judge Ellis' work by, among
17 other sources, the fact that his has become one of the
18 most coveted clerkships in the Federal Courts in the
19 United States, and extraordinarily so among graduates of
20 law schools in this area.

21 It is a remarkable achievement in the eyes of
22 our students and certainly in the eyes of the practicing
23 community to be able to say that you are an Ellis clerk.
24 From the beginning of my time in teaching, which

1 15 years ago to the present, I've been struck in talking
2 to students and practitioners in the area to get a sense
3 that his is truly a special presence in the Federal
4 Courts.
5 Among his other achievements, in addition to his
6 routine work on the court, he has become one of the most
7 influential and thoughtful scholars dealing with the
8 operation of the patent system and its administration.
9 He has published extensively in the field, indeed in a
10 way that makes those of us who are academics full-time a
11 bit ashamed of lack of productivity. Indeed, not only
12 has he done a great deal of work in the area, he has
13 been called upon in a great number of instances to
14 testify on issues in association with the intellectual
15 property issue, among recent examples his testimony to
16 the National Academies Conference on the operation of
17 the patent system in which he examined the
18 administration of the patent system and the operation of
19 the Federal Circuit.
20 It's obvious from these reasons why we are so
21 delighted to have him here today to share his thoughts
22 with us. Simply a bit of further background, before
23 coming to the bench, he was a partner at Hunton &
24 Williams, and had served in the U.S. Navy as a Naval
25 aviator, and dealing with these issues is certainly like

1 landing an airplane on an aircraft carrier at night, we
2 haven't quite brought it onto the deck, but we hope to
3 do so in one full piece for our future take-off as well.
4 Judge Ellis earned a bachelor's degree in
5 engineering at Princeton University, as you know,
6 certainly not for this audience, we have many who have
7 concurred this, but for those of us who spent most of
8 their life running away from mathematics and the
9 sciences, those of us who are lawyers are greatly
10 impressed with Judge Ellis and others who have concurred
11 that apprehension.
12 You are aware that there is a modern thriller
13 now in the movies about how lawyers threatened with
14 mathematics and other elements of the sciences are
15 driven to dismay, the title of the thriller is: The
16 Fear of All Sums. For those of us who have been
17 frightened of the technical skills again, greatly
18 impressed with those who have mastered both of the
19 disciplines.
20 Judge Ellis also received his law degree from
21 Harvard and a diploma of law from Magdalen College at
22 Oxford University. So, once again, we're enormously
23 grateful to Judge Ellis for sharing his thoughts with us
24 today. Thank you.
25 (Applause.)

1 JUDGE ELLIS: Thank you. I thank the General
2 Counsel for such an extravagant introduction. I'll say

1 It is simply put that the escalating,
2 skyrocketing patent litigation costs, beginning in the
3 '70s and '80s and then into the '90s and continuing
4 today, have distorted the patent markets. In essence,
5 it's my observation that -- and it's an observation that
6 I hope one day a real scholar will undertake to verify
7 empirically -- but it's my observation that escalating
8 costs associated with patent litigation of infringement
9 and validity issues discourage challenges to patents,
10 thereby equating the entry barriers for presumptively
11 valid but weak patents with the entry barriers typically
12 associated with strong or judicially tested patents.
13 Let me put some flesh on the bones of that. In
14 essence, strong patents, of course, are a category that
15 I label as referring to those patents that have already
16 successfully passed judicial muster or, because of their
17 intrinsic strength, are clearly valid. Using entry
18 barriers, the height of them as a metaphor -- generally
19 the height of an entry barrier may be said -- to be
20 equal to a royalty rate responsive to a number of market
21 factors, including, for example, the cost of product or
22 technology that competes with the patented product or
23 technology that is outside the scope of the patent.
24 One factor that isn't part of the analysis, or
25 part of the entry barrier equation for so-called strong

1 or judicially tested patents is uncertainty over the
2 patent's validity. Of course, this factor does play an
3 important role in the height of entry barriers for
4 patents that are only presumptively valid and haven't
5 run the litigation gauntlet or aren't inherently strong
6 because they're pioneer patents or the like.
7 So, these high litigation costs, as I see it,
8 deter potential competitors from entering the market and
9 challenging the patent. And if they're high enough, in
10 a particular interest, that is litigation costs are high
11 enough in a particular interest -- instance, then the
12 entry barriers associated with these untested and only
13 presumptively valid patents may be raised at least to
14 the level of those associated with the category of
15 strong patents.
16 It is fair, I think, to ask whether this is bad,
17 and it's almost a rhetorical question. The answer is
18 fairly clearly yes. Inherent in our patent system is
19 that some patents will be improvidently granted. That's
20 why we have a system for testi is e24.ppresvranS0res that are on

1 In any event, the patent office's filter, I
2 think, for filtering out weak or unworthy patents seems
3 to me, and this is just an intuitive observation, it's
4 not a quantitative or a qualitative observation, and
5 it's something that needs to be empirically
6 investigated, but it seems to me that this filter is
7 becoming more porous, and there are some studies which
8 suggest that may be so.
9 Exacerbating the situation is what I think some
10 scholars would argue is the trivialization of the
11 unobviousness requirement, and the increasing
12 significance, for example, of the external factors to
13 support unobviousness, such as commercial success and so
14 forth.
15 There is some good bit of scholarly work on
16 this, I think Professor Lemley has done some excellent
17 empirical work, Professor Thomas is beginning some, and
18 I think Professor Merges once did some as well. But in
19 any event, the bottom line is that it's too common to
20 dispute that a frequent scenario is a potential
21 competitor faced with an infringement suit and having a
22 fairly good position on validity, and indeed maybe even
23 infringement, but the costs of litigation are such that
24 the punitive infringer is unwilling to undertake that
25 expense, and then the result is the risk that invalid

1 patents will pollute the market.
2 Now, whether that's, in fact, occurring or not,
3 I say is an empirical question. I believe that it is,
4 and if it is, that's a pernicious effect of the high
5 cost of patent litigation. Because the patent system,
6 it seems to me, contemplates not only that litigation
7 will eliminate improvidently issued patents, but also
8 that competitors would not be artificially discouraged
9 from marketing a product or using a process that is as
10 close to the border to the patent scope as technology
11 and law permit. High litigation costs are just such an
12 artificial disincentive, I think, and such costs have
13 the essential effect of improperly expanding a patent's
14 boundaries.
15 Now, as I said, these are my intuitive views,
16 based on some years of experience in patent cases, but
17 it really is something that needs to be empirically
18 investigated. I'm not even sure how it would be done,
19 but I think that people like Professor Lemley and Thomas
20 and others who are now getting into more and more
21 empirical work will -- are worthy, certainly, of
22 attempting this difficult problem.
23 But assuming for a moment that I'm correct, it's
24 worth asking what we can do about it. In a small way,
25 the Eastern District of Virginia helps, I think, by

1 using an expedited docket, for all cases, patent cases
2 are no exception. Everything goes from birth to death
3 in six to seven months, regardless of nature or
4 dimension. There may even be, as I look around here,
5 and see the various substantial degree of experienced
6 lawyers, I think we have the means of the bar here and I
7 would expect that some of you have had the experience of
8 a patent case in the Eastern District of Virginia, and
9 it does end relatively quickly.
10 That means that the costs won't be great, as
11 great as they might otherwise be. Because as we all
12 know, if you take identical case and you try it in six
13 months, and try it in two years, it will cost you much,
14 much more to litigate the one that's tried in two years
15 than the twin that's tried in six to eight months. Work
16 expands to fill time allotted, and lawyers bill on the
17 basis of hours devoted to the case. You don't need to
18 empirically verify that, I would be willing to bet large
19 sums of money on that. Indeed I've verified it
20 empirically, because I was a trial lawyer, and I did it.
21 So, I think expedited dockets are a good thing.
22 The big expense in docket litigation is discovery. I
23 liken discovery, generally, and certainly in many patent
24 cases, to a black hole. It is something into which
25 endless resources can be thrown and it gives off no

1 light. You get very little bang for your buck in
2 discovery.
3 I think one of the extreme cases was a case in
4 which I participated in the mid-'70s, a patent antitrust
5 case. We took the deposition of several executives of
6 one of the major companies, which happened to be a
7 European company, and as it happened, these particular
8 executives just happened to be on the French Riviera.
9 So, we were there for nine weeks deposing these three
10 individuals. I think you can draw your own conclusions,
11 but I certainly thought it was a good idea then. On
12 reflection, perhaps not, but in any event, discovery is
13 one of the major problems in all litigation, not just
14 patent litigation.
15 Another problem that has been, I think, lessened
16 a good bit is the presence of juries. Markman, of
17 course, was a watershed event in patent litigation.

1 they never really had to engage the technology, because
2 all they had to do is put on competing experts. So it
3 was a very different environment before Markman. After
4 Markman, where judges, of course, must engage the
5 technology, and judges themselves must decide the
6 boundaries of the claims, the meaning of the claim and
7 therefore the boundaries of what the monopoly is granted
8 for, that takes some uncertainty out of it, and that's
9 reduced some patent litigation costs, and it's taken an
10 issue away from the jury that I think was appropriate to
11 do.
12 Markman has had an enormous effect on patent
13 litigation, and that's another fact that could be
14 empirically studied with some profit. But I'm about as
15 big a fan of juries as you will find. I always
16 preferred a jury trial. It was not even permitted in my
17 old firm to ever give up a jury. That was considered
18 heresy. You never waived a jury.
19 I remember one of the exceptions to that was an
20 occasional patent case, but juries were sparingly used
21 in the '70s. Not that frequently in patent cases. In
22 the '60s, when I first saw patent cases, they were
23 rarely, if ever, used. Fewer than 10 percent of all
24 patent cases, I'm sure the figures are in Schwartz's
25 book, and I believe there are roughly fewer than ten or

1 less than 10 percent of the patent cases were tried to a
2 jury in the '60s or '70s, and at some point in the '70s
3 it grew and in the '80s it grew, and at this point I
4 would be willing to say that it's between 85 and 95
5 percent are to a jury.
6 Now, I'm satisfied that juries do a wonderful
7 job in all cases, including patent cases. But there is
8 a category of patent cases that is I think beyond what
9 juries want to engage, typical juries.
10 As an example, I had a case some years ago, I
11 don't know whether any of the lawyers who are here were
12 in it, but it was a case involving two very large
13 companies involving 24 patents for transistor circuitry.
14 The thought that I would have a jury for two weeks or
15 three weeks, we don't have cases that last longer than
16 that, but that's a pretty long case in the Eastern
17 District, but nobody could pay attention. No average
18 juror would pay attention to transistor circuitry
19 testimony for two or three weeks.
20 And so there is a category of patent cases that
21 really aren't suitable for juries. The biggest problem
22 with a jury in my view is not that this little category
23 of cases. For most cases, juries do it and do it very
24 well. The biggest problem you have is, of course, the
25 globalization. It's hard to harmonize our system with

1 experience in many patent cases that there will be a
2 strong argument, one side thinks, on validity. Yet they
3 will ultimately settle and take a license. Sometimes
4 such an agreement would violate the antitrust laws,
5 because if you agree with somebody to exploit a patent
6 that you have every reason to believe is invalid, I
7 mean, we could hypothesize all sorts of situations. You
8 do have an antitrust situation. I always caution
9 lawyers settling cases that they need to look at that,
10 and then I always make clear, you also need to think
11 carefully about whether you show the court the
12 settlement. That's not required. Parties can settle
13 cases on any basis they want to and merely ask the court
14 to dismiss the matter as settled, agreed, with
15 prejudice, and it's gone.
16 So, I point out the hazards, talk to them about
17 it, and then say, there may be some reasons why and some
18 circumstances it might be worth your having the court
19 participate in some way, and my experience is that that
20 has never occurred. They don't want the court to see
21 the agreement. This is because many of these are
22 probably close questions.
23 Indeed, the case that I told you about that
24 involved the depositions on the French Riviera was a
25 case that resulted from a settlement agreement growing

1 out of patent litigation and a worldwide agreement on
2 using each other's patents. That agreement was ginned
3 up by two of the finest law firms in the country, and
4 then it gave rise to a litigation that lasted for a
5 while. So that's an example of settlements that can
6 violate the antitrust laws and thereby disrupt or
7 distort patent markets.
8 Now, finally, I want to raise another issue on
9 this distortion of patent markets, and that is the
10 presumption of validity, which as you all know is
11 statutory. And it's judicial manifestation is the clear
12 and convincing burden. For good or ill, what has
13 evolved in patent litigation is a standard technique
14 used by patentees when they try patent cases to take
15 advantage of this. They will have the Patent &
16 Trademark Office prepare a nice blue ribbon to tie
17 around the certified copy of the patent and they will
18 ask for an instruction, not just on clear and
19 convincing, but they typically ask for an instruction
20 that there's a presumption of validity. I have some
21 doubts about whether such an instruction is appropriate,
22 other than just clear and convincing. But, in any
23 event, it's frequently done. It happens all the time.
24 If you'll read Federal Circuit cases, there's not a peep
25 about that sort of thing.

1 There is, in my view, some in coherence in the
2 presumption of validity clear and convincing scheme.
3 Let me see if I can describe it to you. There are some
4 of you here that know more about this than I, and
5 perhaps you can put some flesh on these bones. But as I
6 understand it, in a prior art rejection in the Patent
7 Office, examiners identify and disclose to the applicant
8 the legal reasoning that a claim's subject matter fails
9 to satisfy either the novelty or the nonobviousness
10 requirements.
11 This is a so-called case of prima facie
12 unpatentability, and it results in an allocation of
13 proof burdens in the prosecution process. If you look
14 at the Piasecki case at 745 F.2d 1468, that's described
15 there. Essentially it means that the Patent & Trademark
16 Office has the burden of coming forward with proof
17 establishing that the subject matters anticipated are
18 obvious; and if it does, then the production burden
19 shifts to the applicant to rebut the prima facie case.
20 And when the applicant does so, the patentability of the
21 claimed invention is determined on the basis of the
22 entire record by a preponderance of the evidence. I
23 think the MPEP will say so.
24 So, isn't it odd that you can go through a
25 process like that, the patent examiner then lets it go

1 by a preponderance of the evidence, and it arrives at
2 court with a blue ribbon, a statutory presumption, and a
3 clear and convincing burden on the other side. In
4 addition, into the calculus or into this equation, throw
5 this fact in: Professor Lemley went out and tried to
6 ascertain how much time examiners really spend on these
7 matters. I've forgotten which area of technology he
8 looked at, and I've forgotten the precise quantitative
9 result, but it was something on the order of -- in a
10 particular area that he studied -- you were talking
11 about six to eight hours of average time for an examiner
12 on an application.
13 And at the end of that, presumably if there's
14 some dispute, then as I said, it could be done on the
15 basis of a preponderance of the evidence. There's a
16 case at 977 F.2d 1445, that I think helps to illustrate
17 that.
18 Well, those briefly are the remarks I have.
19 Essentially, patent litigation expenses, I think, are a
20 serious disruptive factor in the entry barriers that
21 operate in connection with certain kinds of patents.
22 That is they discourage challenge of those patents,
23 whereas the system contemplates that those patents will
24 be challenged and found out there rather than at the
25 examination in the PTO. And it isn't happening, because

1 of patent litigation expenses, and it isn't happening
2 because of things like the clear and convincing burden
3 that flows from the process.
4 I would be delighted to answer any questions. I
5 hope that if there are any scholars present that I have
6 encouraged real scholars, not people like me who just
7 look and make observations, but real scholars who roll
8 up their sleeves and look at it empirically and
9 analytically and come up with thoughtful statements of
10 it, I hope that I have encouraged you to look at some of
11 these issues, and perhaps write us about it. I would be
12 delighted to see that and to be told that I was wrong.
13 Because even if I am wrong, I'm sure that such studies
14 will discover lots of other interesting things that we
15 should know.
16 Thank you.

1 in terms of the statistical information. For all
2 technologies, the average examiner has about 20 hours
3 for a case, for the most complex cases, it can be
4 something like 35 hours. The six to eight hours I can
5 only equate to the amount of search time that examiners
6 have in probably the more complex areas, but for the
7 entire examination period, the amount of time is much
8 more substantial.
9 My question that I have for the judge is I found
10 it quite intriguing from the perspective of your
11 observation that in the international perspective, one
12 way of getting around an issue dealing with the American
13 system of using jury trials might be to establish some
14 kind of administrative proceeding which would include, I
15 presume, at least most importantly the question of
16 validity as well as potentially enforceability. One
17 thing that we've been contemplating introducing into
18 Congress is a form of a post-grant review system of an
19 inter-partes nature, basically on any condition of
20 patentability, which could be introduced roughly nine
21 months after a patent issues or within four months after
22 an individual would be accused of infringement or
23 threatened by infringement.
24 My question is, with respect to establishing
25 that kind of inter-partes post-grant review proceeding,

1 do you believe that that might be beneficial in sorting
2 out the aspect of strengthening patents through some
3 administrative mechanism before they get into court
4 proceeding?
5 JUDGE ELLIS: In general, I would think that
6 anything you can do to ensure that what makes it through
7 is valid would be helpful. Because once it's through,
8 then you're in litigation. So, I know that Professor
9 Thomas has advocated recently in the Berkeley Technology
10 Journal that there be some participation by -- that it
11 not be ex parte anymore. That it not just proceed with
12 the applicant, in other words. At some stage.

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24 ,oft thers farut r12 figto s,pI'm gladcan havouthink that

1 reviewed Professor Lemley's work, and it was six to
2 eight hours, I just don't remember which area. So, it's
3 been out for some time, I don't recall whether it's in
4 the Texas Law Review or one of the others, but he did
5 come up with a time for a category that made some -- I
6 mean it wasn't a category of mechanical -- simple
7 mechanical devices, I don't think, but I could be wrong
8 about that. But in any event, even 35 hours for
9 something fairly complex is probably not enough,
10 particularly in the areas that we're coming to now.
11 You know, as I see it, and again, I've never
12 been a patent examiner, I haven't even had a tour of all
13 of your spaces. I have talked to a lot of patent
14 examiners, who took classes with Professor Thomas, and I
15 appeared at the classes, and I chat with them. And as I
16 discuss things with them, I'm struck by how much they
17 rely on, (A), what the parties submit as prior art, and
18 (B), their searches for prior art in the resources of
19 the PTO.
20 A lot of prior art, in areas that we are now
21 coming to deal with more and more often, isn't found in
22 those locations. A lot of prior art isn't going to be
23 prior patents, and it isn't going to be in the usual
24 places. And so I think I would be interested, for
25 example, if that issue were studied. That's also, I

1 think, an issue that empirically should be looked into
2 as the extent to which validity issues are increasingly
3 decided, not just on matters not brought to the
4 attention, that's a routine matter in most litigations,
5 is the punitive infringer is always bringing up prior
6 art that wasn't cited to the Patent Office, and then
7 goes for an instruction that it's entitled to less
8 deference for that reason. But it would be interesting
9 to know if these new areas of technology where the prior
10 art takes a lot of different new forms, is being
11 adequately brought to the attention of the Patent
12 Office.
13 The final thing I wanted to answer or say is
14 that I am heartened that the Federal Circuit has taken
15 what I think is a new look at inequitable conduct before
16 the Patent Office. There is a lot of dicta in Federal
17 Circuit opinions about -- it's usually frivolously
18 asserted and so on and so forth, and that's certainly
19 true, but there are valid cases of inequitable conduct
20 where people deliberately refrain from disclosing things
21 they know about from the patent examiner. And the
22 Federal Circuit, in my view, since it's affirmed me
23 twice on summary judgments I've granted on that issue, I
24 think has taken a -- and that's essential to our system.
25 If we don't punish people for not being straight with

1 the Patent Office, we're making a terrible mistake.

2 But did I answer your question? I think yes,

3 administratively it could be done, it ought to be done

4 prior to the issuance of the patent. You were thinking

5 about after the issuance, weren't you? Re-examination,

6 something of that sort? Well, that's already done,

7 isn't it?

8 MR. KUNIN: May It?

1 party a right of appeal to the courts, which is now not
2 available.
3 Quickly a couple of other points. We do provide
4 a very substantial amount of access to non-patent
5 literature, particularly in the fields of emerging
6 technology, and especially with the rise of the whole
7 phenomenon of business method patents. There's been a
8 very substantial amount of investment, not only in use
9 of the Internet, but commercial database access as well,
10 which I guess leads me to a follow-up question, if I
11 could ask it of you, Judge, and that is whether you
12 might favor, in principle, having some kind of a
13 requirement on applicants to do a mandatory information
14 disclosure statements to sort of, you know, do some of

1 the Patent & Trademark Office is remiss in anything it
2 did. I just think we live in a world of technology
3 where it's unrealistic to expect that a patent examiner
4 is going to be able to search resources and come up with
5 all of the prior art. And so we need to find ways to
6 supplement that.
7 MS. GREENE: Any further questions for the
8 judge?
9 (No response.)
10 MS. GREENE: Well, thank you so much for your
11 time. We're grateful that you were able to participate.
12 JUDGE ELLIS: Thank you.
13 MS. GREENE: And now we'll continue on now that
14 you've highlighted a bunch of additional issues that we
15 need to be considering, as if we didn't have enough.
16 So, let's turn back to our scheduled presentations and
17 turn to Jim Kobak.
18 MR. KOBAK: Thank you. And I appreciate the
19 opportunity to be here today. I've already, I think,
20 made a few of my views known during the morning
21 comments, so I will try not to repeat myself too often.
22 I submitted a paper on my kind of preliminary
23 thoughts about some of the things that were not okay
24 might mean, and one of the things that I would like to
25 discuss briefly today is that topic. I would also like

1 to very briefly express a few views on the antitrust
2 jurisprudence of the Federal Circuit. Finally I would
3 like to conclude with a few ideas about what a choice of
4 law rule might be for antitrust cases, given the
5 circumstances in which we find ourselves after
6 Christianson and Vornado.
7 First of all, on the effect of Vornado, I think
8 one of the consequences of the case will be that there
9 will be occasional races to the court house, because
10 whoever -- the complaint is going to determine
11 jurisdiction, if there has to be a compulsory
12 counterclaim to that complaint, it's going to go to
13 whatever court house jurisdiction because of the
14 complaint. And that means that there would be a premium
15 on the antitrust plaintiffs who if they want to avoid
16 the Federal Circuit trying to file their case first,
17 because then everything would get appealed to the
18 regional circuit.
19 It also cuts the other way, because you can also
20 have a situation now where the regional circuits, as
21 Justice Stevens noted in Vornado, will actually be
22 deciding some patent issues when they arise in
23 counterclaims that previously would have been handled
24 exclusively by the federal jurisdiction.
25 Now, is this an important thing? I'm not sure I

1 know the answer to that. I'm not sure that I foresee
2 that there will be a lot of additional races to the
3 courthouse. I think we already have races to the
4 courthouse for reasons having nothing to do with the
5 jurisdiction of the Court of Appeals that will hear the
6 case. Sometimes it's just convenience, sometimes one
7 might want to go, or avoid a court that acts as promptly
8 as Judge Ellis' court for tactical reasons. So, this
9 isn't really a phenomenon that's going to be new to
10 patent law.
11 I think, as we discussed a little bit this
12 morning, there will be cases where even though something
13 is pleaded as an antitrust case, there will be
14 jurisdiction under the second prong of Christianson, if
15 that there are issues that have to be resolved,
16 necessarily have to be dealt with that are patent
17 issues, and as long as those issues are in the case and
18 there are no alternative theories, which wouldn't
19 involve patent issues, the Federal Circuit will still
20 have jurisdiction under the "arising under" test.
21 So, there will be some of those cases, and I
22 think Nobelpharma and Walker Process cases are probably
23 classic illustrations of them. There will probably be
24 others where validity or scope of patent is definitely
25 an issue as part of the antitrust claim.

1 I think you will see some change of the
2 pleadings in some cases. I could certainly see if you
3 wanted to get your antitrust case to your regional
4 circuit, you might try to plead it in a certain way to
5 avoid the second prong of Christianson. I think you
6 probably would not now include a declaratory judgment of
7 patent invalidity, which, you know, frequently was done
8 before Vornado. Again, whether that will happen often,
9 how significant it is, I'm not sure.
10 Another thing I think we'll see is increased
11 importance of a compulsory counterclaim rule, rule 13(a)
12 of the Federal Rules of Civil Procedure, because if
13 something is a compulsory counterclaim, you're going to
14 have to plead it. If it's not a compulsory
15 counterclaim, you can plead it if you want, but you can
16 also save it and plead it at a later date, and in that
17 way, you won't necessarily subject yourself to federal
18 circuit jurisdiction.
19 This is a very complicated question, because
20 there is language, and the Mercoid case seems to be our
21 favorite whipping boy today, that basically said patent
22 law and antitrust law derived from separate sources are
23 independent of one another. So an antitrust claim of
24 any kind can never be a counterclaim to a patent
25 infringement action.

1 Now, that doesn't seem to make a lot of sense,
2 if you look at rule 13. Usually the way the courts deal
3 with rule 13 is to say: Is there some factual overlap
4 between what's alleged in the complaint and what's
5 alleged in the counterclaim and is there a logical
6 relationship between those two things?
7 So, the situation we have now, as far as I can
8 figure out, is that some circuits still say: Well,
9 we're bound by Mercoid, until that's reversed. Some
10 circuits say: We should limit Mercoid to its facts, and
11 the facts of Mercoid were a licensing agreement and
12 price-fixing agreement and things like that, and not
13 really an attack on the validity and the enforcement of
14 the patent, per se. So, in the kind of case that
15 Mercoid itself involved, we'll find the counterclaim

1 So, there are a lot of issues. I think, again,
2 it seems like an inevitable conclusion that the Federal
3 Circuit would get counterclaims involving Walker Process
4 issues and Nobelpharma issues, but I think they would
5 get most of those cases under arising under jurisdiction
6 anyway.
7 Now, let me turn for a minute to the
8 antitrust -- and I know we spent a lot of time on this
9 this morning. It's not going to be any secret to you.
10 I think that basically the results that the court has
11 reached in cases like Nobelpharma and Bard, as George
12 pointed out this morning, are perfect examples, are
13 probably not only mainstream antitrust jurisprudence,
14 but are some of the few cases that you can find that
15 have actually sustained liability at the appellate
16 division on the bad faith enforcement theory or on a
17 predatory design change theory.
18 On the other hand, as we've also discussed
19 today, there is some sweeping very unnuanced dicta in
20 some of those cases, and in the Xerox case and the
21 Intergraph case, which seems to go beyond, at least what
22 many of us would think would be a real balanced
23 description, I guess you could say, of black letter law.
24 And, you know, you can argue that that's dicta and you
25 should not just rely on dicta in cases, you should look

1 at the actual holdings of the cases, but the fact of the
2 matter is that people cite dicta in briefs, and
3 sometimes lower courts do rely on it. So, I think it's
4 a problem.
5 Another area that -- and I guess this will build
6 on some of what Judge Ellis said. The Federal Circuit
7 has placed a lot of emphasis and a lot of antitrust
8 cases as well as other cases on the presumption of
9 validity of the patent. It's also said that whenever
10 you have a patent case, whether it's an antitrust case
11 or a Lanham Act or a state law case where what's alleged
12 are bad faith threats or notices to the trade about
13 enforcing a patent, that between the fact that there's a
14 provision in the patent law that allows a patent owner
15 to notify people may require them, for damage purposes,
16 to notify people of potential infringement, and the
17 presumption of validity.
18 These claims, although they can be made, require
19 proof of bad faith under a very high, clear and
20 convincing type standard. I question, I guess, whether
21 that is necessarily the correct balance. There seems to
22 be a presumption or an assumption by the Federal Circuit
23 that patent policy of notifying people is more important
24 than the state law on fair competition principles or the
25 antitrust principles that might be involved or the

1 Lanham Act principles that might be involved. I'm not
2 sure that that's necessarily the right answer to that
3 question, although it clearly is a possible answer.
4 After considering Vornado, as I think I
5 mentioned this morning, I've kind of come around to a
6 view that maybe one way that would make sense to
7 approach choice of law issues would be to say that when
8 you have an arising under type issue, an issue, and even
9 though it's an antitrust case and an antitrust issue,
10 but one that necessarily involves looking at and
11 determining real questions of patent law, those ought to
12 be questions where federal circuit law applies
13 exclusively, whether the case is -- and most of those
14 cases will be in the Federal Circuit, although I suppose
15 it's possible that some now may still be in regional
16 circuits.
17 But it seems to me that, as I mentioned with
18 respect to Nobelpharma, you'll actually have a situation
19 where the Federal Circuit will hear some of these cases

1 correctly before the Patent Office and that they be
2 punished if they committed inequitable conduct. The
3 court ought to consider what the standards of behavior
4 are before the Patent Office, it seems to me ought to be
5 the Federal Circuit, because they are going to be the
6 ones to see that issue time after time.
7 I don't think that standard works as well when
8 you're talking about refusals to deal or licensing
9 questions. As I said this morning, I think other
10 circuits are going to have perhaps a better developed
11 body of law or at least in a position where they may
12 have a better developed body of law and the subjects
13 like that involving not just patents, but other things,
14 like copyrights and other closely related types of
15 rights.
16 I guess I disagree a little bit with what Bob
17 Taylor said about other circuits not necessarily having
18 recent case law, because I think you do have the
19 Microsoft case, in the D.C. Circuit, dealing with a lot
20 of the -- even though it's not a patent case, a lot of
21 the kinds of issues that could arise from a patent
22 antitrust case. You have the Alcatel case in one of the
23 circuits, dealing with misuse, but on a kind of
24 antitrust theory. You have Judge Posner's case. I know
25 there's a PrimeTime case in the Second Circuit involving

1 licensing of copyright.

2 So, there are other cases that are percolating
3 in the other circuits that involve the antitrust issues
4 of the type that might be involved. And I think if it's
5 just a question -- if what we're saying is we have to
6 balance antitrust and patent policy, as I said this
7 morning, I don't see why the law from the regional
8 circuits can't be counted on to do that in a reasonable
9 fashion, and perhaps from the point of view of judges to
10 have a little bit broader jurisdictions until they see
11 these matters in contexts other than solely as they're
12 related to patents.

13 MS. GREENE: Comments, yes? Cecil?

14 MR. QUILLEN: A choice of law question. Under
15 Vornado, we're going to end up with occasionally issues
16 of validity and infringement being litigated in district
17 courts and presumably appealed to regional courts of
18 appeal. The Federal Circuit has not followed Graham
19 versus John Deere and Adams, nor has it followed any of
20 the subsequent Supreme Court cases, Adams, Rolling Rock
21 Bock, Dann V. Johnston, Secreta [phonetic]. When these
22 cases show up in a district court, it's going to be
23 appealed to the original Court of Appeals, are they
24 going to follow federal circuit law or are they going to
25 follow the Supreme Court and the law that existed in

1 their region, and that's the question.

2 MS. GREENE: Answers? Responses?

3 MR. QUILLEN: I don't know the answer. But to

4 me an even more fascinating question than what antitrust

5 law is the Federal Circuit going to apply, it's what

6 patent law are the regional circuits going to apply?

7 MS. GREENE: Bob, yes?

8 MR. TAYLOR: If I could have the microphone.

9 I think that is actually not only an interesting

10 question, but it is one that is going to get massaged

11 very carefully by the patent owner who has been sued,

12 and who finds itself with the option of filing a

13 counterclaim or filing a separate lawsuit, presumably

14 the federal lawsuit heading to the Federal Circuit, the

15 counterclaim patent case heading to one of the regional

16 circuits, and an opportunity, at least, to argue to the

17 regional circuit that the law should be something other

18 than what the Federal Circuit says it is on a patent

19 issue.

20 And there will be lots of issues, not just the

21 obviousness questions under Graham versus John Deere and

22 its progeny, but there will be -- the Federal Circuit

23 has been pretty tough on patent owners on written

24 description, for example, on section 112-6 and its

25 application.

1 So, there's going to be, unless the Congress

1 apply Federal Circuit law in the same way that the
2 Federal Circuit should apply regional circuit law on
3 non-patent questions? Do you think there will be good
4 data at some point?
5 MR. KOBAK: I would say yes, but I think the
6 question that somebody raised is what is the law? If
7 you've got it seems like the Federal Circuit has said X
8 and the Regional Circuit has said Y, they are more bound
9 maybe by the Supreme Court than they are by the other
10 circuit. I think in theory they ought to be applying
11 the Federal Circuit law just as if they were in the
12 Federal Circuit.
13 MS. MICHEL: From a practical or pragmatic point
14 of view, how likely do you think it might be that the
15 regional circuits delve into those questions rather than
16 simply accept the latest statement by the Federal
17 Circuit on a legal issue?
18 MR. QUILLEN: I don't think they're going to be
19 able to avoid it. Somebody is going to be arguing that
20 the Supreme Court pronounces the law and that you should
21 follow the Supreme Court law; because it's going to be
22 more favorable to at least one of the parties in the
23 lawsuit. So that this is going to be one of the early
24 issues that gets placed by the first district court that
25 has one of these cases.

1 the past with a series of articles that at least came to
2 Ms. Greene's attention, and so I want to turn to some of
3 those and some of the issues raised in them.
4 For reasons that have been nearly universally
5 proclaimed throughout these proceedings, I think we can
6 take it as a given that technological innovation is a
7 major, perhaps the major engine of this country's
8 economic success, and as much as anything else that
9 success has secured a position of global leadership. So
10 it's difficult to underestimate the issues that we're
11 grappling with here. For reasons others have expressed
12 more eloquently and more authoritatively than I -- and
13 I, too, believe the United States patent system and the
14 protections it provides us play an important role in
15 promoting that success.
16 But I'm glad to be here today to talk about a
17 particular element of that system that is near and dear
18 to my heart, and I say it's near and dear for several
19 reasons. First, at McDermott in Irvine, California,
20 where I practice, I'm one of six partners in the irvine
21 office who devote their full professional attention to
22 these issues. Second, as a member of the Board of
23 Directors for the Orange County Patent Law Association,
24 which is sort of like a mini-regional AIPLA, it takes up
25 time in my spare time. And then third, as I've kind of

1 alluded to, I've made it kind of a hobby of giving
2 critical attention to the court and its jurisprudence.
3 So, for all those reasons, as an advocate and as
4 a colleague of my -- of other practitioners in my area,
5 and as a critical observer, I've taken a keen interest
6 in the Federal Circuit and its workings. And with that
7 background in mind, I want to touch on three general
8 topics here today.
9 I want to summarize first briefly those three
10 articles that I wrote with a friend of mine, a former
11 partner of mine -- a current partner of Bob's, by the
12 way -- Bill Rooklidge at Howrey Simon, and the debate we
13 tried to spark with those articles.
14 Second I want to update them a little bit since
15 it's been a couple of years since we finished our little
16 triptych. Third I want to tie our observations about
17 what we pulled out of those articles, if I can, with a
18 word or two about the nexus of patent and antitrust
19 jurisdiction.
20 So, back in '98-'99 and 2000, Bill Rooklidge and
21 I addressed three distinct but interrelated aspects of
22 Federal Circuit jurisprudence. In a first article
23 called "Stare Undecisis," the sometimes rough treatment
24 of precedent in Federal Circuit decision-making which
25 came out in 1998 in the Journal of the Patent &

1 of the Federal Circuit, and led to less certainty in
2 Federal Circuit decision-making.
3 The second article, "Judicial Hyperactivity:
4 The Federal Circuit's Discomfort with its Appellate
5 Role," was published in early 2000 in the Berkeley
6 Technology Law Journal. This article discussed another
7 bedrock tradition of American jurisprudence, mainly the
8 specialized role appellate courts have in our judicial
9 system, and the restrictions that prevent them from
10 becoming mini-trial courts, retrying the cases that are
11 presented to them on appeal.
12 The "Judicial Hyperactivity" article looked at
13 the tendency of the Federal Circuit in certain
14 circumstances to reach beyond its role as an appellate
15 court to make independent findings of fact, even to
16 undertake its own fact investigations, rather than
17 simply reviewing the record or the case presented to it.
18 The article also looked at ways in which the
19 Federal Circuit from time to time stepped out of its
20 role as arbiter -- as decision makers -- and became
21 advocates, deciding cases on grounds never actually even
22 presented by litigants.
23 We argued that this inclination on the part of
24 the Federal Circuit, like the inclination to overlook
25 conflict in its own precedent, undermined the goal of

1 certainty and predictability in its decision making.

2 Then finally in late 2000, we published an

3 article in the Santa Clara Law Review entitled: En Banc

4 Review, Horror Pleni, and the Resolution of the Patent

5 Law Conflict." For the title of this article, we stole

6 from a term coined by Carl Lewellyn, Horror Pleni, which

7 means literally a fear of the pleni or fear of the

8 group. We referred to what we viewed as reticence on

9 the part of the Federal Circuit to use the most

10 important tool at its disposal to tackle intra-circuit

11 conflict, namely the tool of en banc review, or review

12 by the entire court.

13 Now, while we acknowledge and it's certainly

14 beyond dispute that en banc review is very time

15 consuming and draws immensely on the resources of the

16 court, and while we acknowledge that that can be

17 inefficient, we argued that it was the best way to

18 resolve apparent conflicts in court precedent and

19 promote greater certainty and predictability of the

20 patent law.

21 As an aside, I will note that of the primary

22 conflicts in patent law that we -- in Federal Circuit

23 law that we pointed to in the first article was a

24 conflict between the Maxwell v. Baker case and the YBM

25 Magnex case. It was at the expense of my own client,

1 Johnson & Johnston Associates that the court took us up
2 on our invitation and reversed the case that we had won
3 in the district court, resolving that conflict, and so I
4 think to the greater good. But I hasten to add now what
5 I should have said in the beginning, I speak only for
6 myself now and not for my firm or for my clients.
7 So, these articles that I am discussing were
8 written three and four years ago. Since then, some of
9 the problems we sought to raise for discussion and
10 consideration have, in fact, become less problematic,
11 all goes to the dismay of one or another litigant, I'm
12 sure.
13 If we were writing those articles today, we
14 would have less to take exception with. For example, in
15 the area of intra-circuit conflicts, which the court has
16 taken considerable strides towards reducing. On the
17 other hand, new concerns have arisen in the way the
18 Federal Circuit asserts and exercises its jurisdiction.
19 Now these four years have shown, I think, that
20 the Court could be in some ways more activist than we
21 had seen in the past. More willing to assert its
22 jurisdiction and sweep new issues into its gambit of
23 control.
24 There is continuing uncertainty about the scope
25 of the Federal Circuit's jurisdiction and the reach of

1 its own laws for this reason. The Federal Circuit
2 remains prone under certain circumstances to overstep
3 the role defined for it by statute, and by Supreme Court
4 precedent.
5 And I wanted to touch particularly on one way in
6 which we have seen the Federal Circuit challenge these
7 boundaries, and it is an issue others have touched on
8 today. I think there has been a discernible trend in
9 recent years for the Federal Circuit to apply its own
10 laws rather than the laws of regional circuits to more
11 and more questions.
12 We have seen this creeping -- I'll call it
13 Federal Circuitization of the law in relatively
14 unessential areas, like procedural rules bearing on the
15 resolution of patent law issues. But as the subject of
16 this discussion here really highlights, we have also
17 seen it in what I think are quite substantive and
18 important arenas, the most dramatic of which is
19 represented by the Nobelpharma case, in which the court
20 dramatically expanded, I think, its jurisdiction over
21 questions of antitrust law.
22 In Nobelpharma, the Federal Circuit announced in
23 words that may have been a little ill-advised, that
24 whether the conduct in prosecution of a patent is
25 sufficient to strip a patentee of its immunity from the

1 antitrust laws, is a question that involves the Federal
2 Circuit's exclusive jurisdiction.
3 Incidentally, it was a departure from the
4 court's prior precedent to make the statement that it
5 required just the sort of inbound growth that we had
6 urged the court to do in one of our articles. I don't
7 mean to imply that it was following our suggestion, but
8 we do get some points for corrections, perhaps.
9 In Nobelpharma, the Circuit Court reasoned that
10 most cases of antitrust claims arising out of the
11 prosecution of a patent would lie within its appellate
12 jurisdiction anyway, and that the Federal Circuit was
13 justified in applying its law for the laudable aim of
14 developing uniformity in an important area of antitrust
15 law.
16 Almost immediately the Federal Circuit was
17 called upon to clarify the scope of the sweeping
18 pronouncement it had made in Nobelpharma. In an
19 unpublished opinion just a few weeks later entitled, In
20 re: Film Tech Corp., the court had made it clear that it
21 did not intend to suggest that it had exclusive
22 jurisdiction to decide antitrust claims arising out of
23 fraud in the Patent Office, but rather that it was going
24 to apply its law to those cases that happened to come
25 before it.

1 Some commentators and speakers here today, in
2 fact, have looked at Nobelpharma and the cases which
3 have followed it and noted that the Federal Circuit has
4 done a good job crafting its own antitrust law that is
5 largely in accord with the mainstream of antitrust law
6 developed in the various regional circuits. However,
7 while the Federal Circuit may have done in its foray in
8 antitrust law, I think it's impossible to object to the
9 Nobelpharma opinion on principle alone. Even if the
10 Federal Circuit appears to be getting it right in this
11 particular area of the law, it has done so in a way that
12 suddenly erodes the boundaries between the Federal
13 Circuit's jurisdiction and the jurisdiction reserved to
14 the regional circuits.
15 In this regard, the Federal Circuit's rationale
16 for carving out a piece of the antitrust law as its
17 particular domain, I think was simply too powerful.
18 There are probably other areas of law that arise only in
19 connection or often in connection with patent litigation
20 that could certainly use more uniformity. For example,
21 there is considerable variation in how states treat
22 contract laws for the assignment of patent rights. Like
23 the antitrust nexus identified in Nobelpharma, this is
24 certainly an area in which uniformity could streamline
25 the application of patent laws, but that is clearly not

1 an area where the Federal Circuit is permitted to apply
2 its own laws.
3 In any event, it is an area where the Federal
4 Circuit has to date consistently ruled that regional
5 circuit and state law control. The Federal Circuit was
6 not formed to bring uniformity to the laws generally,
7 its mandate is to bring uniformity to the patent law,
8 and as to core concepts and rules, it has largely done
9 that, by reaching further out of its core area of
10 concern and beyond its core jurisdiction, the court
11 challenges the balance between two competing values,
12 uniformity and diversity.
13 In accordance with the basic federalist values
14 underlying our system of government, the system of
15 multiple circuits has evolved as a way to permit or even
16 encourage competition among the circuits, in a sense, in
17 the development of the law. The diversity among the
18 circuits moderated and guided by the Supreme Court, when
19 it sees a need to resolve conflicting approaches, is
20 something that ensures both progress and stability in
21 our laws. By applying its own law rather than the law
22 of the regional circuits to particular antitrust issues,
23 the Federal Circuit chips away at that diversity.
24 I want to join Bob in putting these comments in
25 perspective. The Federal Circuit which was formed in

1 MS. MICHEL: Let me start here, with a question,
2 do you think that the overriding concept when the
3 Federal Circuit is deciding what law to apply, what is
4 that concept, and is it whether or not the question
5 presented is a patent question? If that is the
6 overriding concept, is it always so straightforward to
7 decide what's a patent question and does anyone have any
8 commentary on how we might wrestle with the sticky
9 issues at the interface of antitrust and IP? I think,
10 in particular, my line of questioning here might take us
11 back to a very early exchange early this morning with
12 Bob Taylor about do we define some of these questions as
13 antitrust questions or patent questions, and that might
14 depend on where you're starting from.
15 In particular, there's a license question that I
16 think a patent lawyer might say yes, that is a patent
17 question, because whether or not I have the right to
18 refuse to license based on my patent is determined by
19 the scope of my patent and not by antitrust law.
20 MR. TAYLOR: I think it's also, though,
21 determined by provisions in Title 35 such as 271(d). I
22 mean, there is a statutory construction question that
23 has to be faced, and a refusal to deal in a case where

1 that 271(d) was intended to apply only to patent misuse
2 and shouldn't be applied to the analysis of an antitrust
3 question, but most serious scholars, I think, have come
4 to the conclusion that if that's the law, it really is
5 not a very intelligent construction of the law, even
6 though there have been some courts that have held that.
7 So, it seems to me that certainly the antitrust
8 questions governing the manner in which you may
9 commercialize a patent without running afoul of the
10 misuse concepts, the manner in which you can assert a
11 patent where the patent is ultimately determined to be
12 invalid and the whole breach of the Walker Process and
13 the Handgards cases, those questions are awfully
14 difficult to separate from what's necessary for uniform
15 construction of Title 35, in my mind.
16 MS. GREENE: George?
17 MR. GORDON: I think, Suzanne, your question,
18 you put your finger on, as you did this morning, a
19 really fundamental question lying at the intersection
20 between antitrust law and patent law, and the
21 interpretation of the CAFC case.
22 In thinking about this, and I throw this out
23 there for consideration, I wonder if there's not a line
24 that could be drawn based on the idea behind the second
25 prong of the arising under jurisdiction test, which is,

1 resolution of a substantial question of patent law.
2 Because it seems to me that maybe if you look at cases
3 like Nobelpharma and sham litigation cases, they're the
4 cases, the cause of action, the non-patent cause of
5 action, whether it be antitrust or otherwise, does
6 require resolution at a substantial question of patent
7 law.
8 When you're talking about the cases related to
9 refusal to deal, such as Xerox, I mean in my mind, I
10 think they turn more on the question of whether patent
11 law trumps other causes of action and less on the
12 question of resolving a question of patent law. That's
13 the area where I really wonder whether or not we're
14 better off having multiplicity of views and having an
15 opportunity for other circuits to take up that question,
16 because it does involve competing sets of values.
17 MS. GREENE: Matt?
18 MR. WEIL: I guess just to buil Fhyot Tj, the
19 value of the multiplicity of views shoul Fprovide some
20 impetus in a Federal Circuit kind of setting where they
21 really do call the shots. They're getting the cases and
22 they're deciding themselves whether their law or another
23 law is going to apply. They ought to be bending over
24 backwards, I think, to look for ways to draw analogies
25 to other areas of law, to closely related to the figure

1 and ground that Bob talked about, they ought to look for
2 that ground and call on those principles, whenever they
3 can. It helps stitch them into the fabric of the law
4 better, keeps them from becoming a rule unto themselves,
5 and immunizes them from the kind of criticism that they
6 might otherwise draw.
7 MS. GREENE: Cecil, why don't you -- you were
8 sort of inching to give your comments.
9 MR. QUILLEN: Well, I have to --
10 MS. GREENE: Put it all together.
11 MR. QUILLEN: I'm not sure how to put it all
12 together, because it really follows more closely to
13 Judge Ellis' comments than the intervening comments.
14 Like everybody else, the views expressed are mine and
15 mine alone, based on some 30-odd years of having done
16 this sort of stuff, and they certainly should not be
17 attributed to either Cornerstone Research or the Eastman
18 Kodak Company.
19 I start with some assertions, some of which can
20 actually be documented and supported in the materials
21 you were kind -- the Commission and the Department were
22 kind enough to include in the comments section. So if
23 there are people who want to know whether I had anything
24 to back up what I'm about to say, I would refer you to
25 the comments section where my views are expressed ad

1 nauseam, and with a measured degree of cynicism.
2 I start with an assertion that for innovators,
3 that is to say people who introduce new products or new
4 processes, who commercialize these, dealing with the
5 patent system is an important function. The way
6 innovators deal with the patent system, so far as I
7 know, is that they seek patent applications on the
8 inventions that they might expect to commercialize. And
9 we can have great debates about how serious your
10 intention has to be.
11 The purpose for seeking these patents is to
12 preempt others from getting patents that might prevent
13 you from commercializing your invention, and thus turn
14 to waste all of the money that you spent on it.
15 The Federal Circuit came along in 1982, and
16 promptly lowered the standards for patentability that
17 were applied in the United States, and in addition
18 introduced uncertainty into the valuation of patents and
19 the determination of patent validity and invalidity
20 issues under the nonobviousness question that had not
21 existed before.
22 The initial quantification was that prior to the
23 Federal Circuit, something like two-thirds of the
24 patents in which there were validity decisions were held
25 invalid and following the Federal Circuit the initial

1 quantification was that only about one-third of the
2 patents were held invalid by the Federal Circuit. Mark
3 Lemley and John Allison had a more recent paper out that
4 would put the number at about 60 percent, depending upon
5 how you read it.
6 Now, what did innovators do? They responded.
7 In the years before the formation of the Federal
8 Circuit, the Patent Office received about 100,000 patent
9 applications a year. Following the Federal Circuit, the
10 line took off and started north, and by the year 2000,
11 they received nearly 300,000 patent applications. So,
12 tripling the number of the patent applications that were
13 filed between 1983 and the year 2000.
14 In the same interval, the Patent Office
15 acceptance rate, and there are different ways of
16 measuring this, the paper that Harvey Lipson [phonetic]
17 and I did is available in the comments section that
18 looked at the 1993 through 1998 time period, I believe
19 it was. We have another one coming out that takes us
20 back to 1980, which will appear in the August 2002 issue
21 of the Bar Journal. But the acceptance rate measured by
22 what we've called "allowance percentage" went from about
23 60 percent in 1982 to something like 90 percent by the
24 year 2000.
25 Another measure is the grant rate, which is the

1 number that is published by the Patent Office on the
2 trilateral website. This went from something like 80
3 percent in 1980 to just shy of 100 percent in the year
4 2000.
5 Now, I understand from Steve that the Patent &
6 Trademark Office is going to rework our figures and see
7 if they can come to different numbers and they expect to
8 publish theirs. But the point is that the standards for
9 patentability if the Federal Circuit were lowered, the

1 restore the standards for patentability that once
2 existed would be to restore appellate jurisdiction in
3 patent cases to the regional courts of appeal.
4 I think this fall we will have an opportunity to
5 discuss whether that's a good idea or not, because there
6 undoubtedly will be legislative proposals to undo the
7 Vornado case, and if you're going to debate in Congress
8 what is the appropriate jurisdiction of the Federal
9 Circuit, maybe you ought to debate in Congress what is
10 the appropriate jurisdiction of the Federal Circuit.
11 There are a couple of other issues that I think
12 are not quite in the mainstream of this. One of the
13 papers that's available in the comments section of the
14 hearings is a paper by Dr. Vincent O'Brien of the Law
15 and Economics Consulting Group, and Vince has gone
16 through and done what I guess he calls it an economic
17 analysis, the title of it is "Economics and Patent
18 Damages." It's been published in the University of
19 Baltimore Intellectual Property Law Journal, and Vince
20 demonstrates the absence of economic thinking that
21 governs patent damages law in the Federal Circuit.
22 And given the inability to get around stare
23 decisis, if you will, I don't know how you fix patent
24 damages law in the Federal Circuit, because the district
25 courts follow the law pronounced in the Federal Circuit,

1 and it takes a very brave district court judge to decide
2 that the Federal Circuit which is going to hear his
3 appeal doesn't know what it's talking about and you
4 ought to rule against them.
5 So, one way of correcting the erroneous damages
6 law would be to have the appellate system reversed so
7 that it goes back to the regional courts of appeal,
8 which I have every confidence that over time would
9 correct the economic errors.
10 Final point which, again, is a stray one, but
11 was suggested in part by Mike Scherer when he was here
12 yesterday, is the Federal Circuit seems to me not to
13 give due credit to competition as a driver of
14 innovation.
15 And Hillary knows that I've already recommended
16 that the Commission needs and the people working on this
17 need to pay great attention to a new book by Will
18 Baumol, an economist at NYU and Princeton, and the title
19 of his book is The Free Markets Innovation Issue. And
20 the essential thesis of Will's book is that in oligopoly
21 markets, which happens to be the kinds of markets that
22 we live in, the free market by placing the oligopolist
23 in a position of competing on innovation, is what drives
24 innovation, and the innovation, in fact, is routinized.
25 Those of us who work in industry where we have

1 Sometimes I think like a computer scientist. I
2 received my first email address I think in the fall of
3 1973, and somehow programming has been my life in one
4 form or another. And the thing is, the problems of the
5 programming profession, the problems of the science of
6 programming has been sort of the -- how would I say
7 it -- the fruit fly for all these experiments that we
8 have been talking about, whether it's creating the
9 Federal Circuit, or the draft Intellectual Property
10 Antitrust Protection Act -- Antitrust and International
11 Property Protection Act I think it was, I don't think it
12 ever got through, but they produced a beautiful report.
13 The thing is that having the computer program
14 and having it go from being a toy to being one of the
15 most fundamental engines of wealth is a very big deal.
16 One way to know that it is a very big deal is to realize
17 that now it's been a fairly big engine of fraud in
18 recent months and years. That, to me, proves that it's,
19 in fact, an engine of wealth. So, having said that, it
20 seems to me it's really important to try and understand
21 scientific and technical realities.
22 The second thing that I do want to say, what
23 people call the economic perspective is to recognize
24 that there is a fundamental conflict in the public
2ist. ,gealities.

1 purpose cannot be easily done away with by changing
2 procedures, by switching from jury verdicts to judicial
3 determination or any of those things. Fundamental
4 questions like this in our system are resolved through
5 public debate, perhaps corrupt public debate, but
6 definitely public debate.
7 Lastly, the question of uniformity, which was
8 both in the statute creating the Federal Circuit, and
9 the draft bill before the Jack Brooks CoT0s Cabok Bi3 byrdl0,

1 based on derivations on mathematics, on theory, and here
2 I realize I'm not using that sense, I'm saying that we
3 need more facts. We have a lot of facts, but the point
4 is that we still do not have enough data about patent
5 issuance, about the Federal Circuit, and so on.
6 You know, the last conference I was at on
7 patents in D.C. was at the National Academy of Sciences,
8 and one of the speakers there got a really wonderful
9 laugh, he was the envy of any speaker, by pulling out a
10 patent which was maybe a year or so old, and all of us
11 being sort of the super ego of the patent examiner,
1 /F0 ohe l-fv enoauawe still dsaying0v3 0g0v3 0g0v3 0g0v3 asuan
9 laugh, he was theF03t which wed.

1 I bring this up because it's childish amusement
2 for me, for a lot of times, I can always read it and

1 consumer welfare models are simply inadequate for
2 dealing with any of these things.
3 So, now this is the part where I do not know how
4 I would proceed. So, let me offer these, I might have
5 changed them if I had had the opportunity today, but I
6 sort of went through the exercise of saying, what
7 questions would I like students in a course to answer if
8 it was a course on antitrust law and intellectual
9 property law. And I will leave those for you.
10 And then finally, the question of is the
11 question of uniformity as important now as it seemed in
12 1981? Is the need for stable computational property
13 regimes trumped by the need for inter-patent uniformity?
14 Have we now learned enough from the Federal Circuit
15 experiment to proceed to beta test the next version?
16 Those are all questions that I would like exercised.
17 Thanks.
18 MS. GREENE: Okay, you will all have five
19 minutes to write down your answers to the questions, and
20 then Professor Dreyfuss will grade us. But if you can
21 proceed, Professor Dreyfuss.
22 MS. DREYFUSS: Hillary had asked me to provide
23 some reflections on the discussion, and this is my
24 penance of not doing a presentation of my own. It's a
25 particularly draconian punishment, given first of all

1 the wide range and insightful input that I have to
2 reflect upon, and also I have been here for two days, so
3 actually I have twice as much to reflect on than what
4 you might think. So, thanks a lot, Hillary.
5 But anyway, the hearings over these last two
6 days have addressed many difficult questions on the
7 interface of patent/antitrust law today and various
8 doctrines of patent law yesterday. But I take it the
9 main question for these two days is not so much the
10 substance of the law as institutional design. There are
11 a lot of actors here. There's the PTO, there's the
12 Justice Department, the FTC, and most particularly the
13 courts, the CAFC, the regional circuits, the district

1 may now be cut back by the Vornado decision. How much
2 is going to depend on how manipulatable the pleading
3 rules or, and I think Jim Kobak gave us a nice
4 discussion of rule 13(a), and it's really going to
5 depend a lot on what's considered compulsory and what's
6 considered permissive.
7 The real question, though, of course is whether

1 to litigate. Yesterday everybody said just the
2 opposite, inventing is like dancing through a mine
3 field, Mike Scherer said, because the court's been so
4 generous with remedies that now, you know, if you happen
5 to step on somebody's patent, you get your leg blown
6 off.
7 So, there's really been a big difference in the
8 way that people have thought about the court. And my
9 question is sort of, why that difference? Well, one is
10 maybe people have practiced before the court are less
11 inclined to criticize it on the public record, or maybe
12 it's academics can't help but grade people all the time,
13 as you've just pointed out. But I think there's
14 probably more serious answers than that.
15 One answer, and here I disagree with what
16 Bhaskar just said. I think that many of you feel the
17 importance of uniformity, that your clients need
18 uniformity and predictability, and you think you can get
19 more of it out of the Federal Circuit. And on the
20 question of what does uniformity mean, I think in the
21 context of the Federal Circuit, it's not the legal
22 rules, it's the outcome of the legal rules, and I think
23 it for a couple of reasons.
24 One is that the notion of creating an expert
25 court was in order to apply the law to technical facts

1 in cases in which the outcomes are very fact dependent.
2 And so that's why I think it's about outcome. And also
3 I think a major goal was to avoid forum shopping, and I
4 think it's the outcomes that affect forum shopping and
5 not the rules.
6 Well, if that's the case, if uniformity is so
7 important, then I would take it that people would think
8 that the jurisdiction of the court should be broad
9 enough to include most patent questions that arise, and
10 that we should be arguing for a change in Vornado, and
11 even in expansion of Federal District Court jurisdiction
12 to include cases in which a patent appears as a
13 counterclaim.
14 So, also cases in which over licensing disputes
15 in which the patent is the thing that's being licensed.
16 That would eliminate the potential for forum shopping,
17 it would bring all the cases to the federal -- to the
18 CAFC, we wouldn't have races to the court house, we
19 wouldn't have these artful pleading problems that might
20 arise now. So, if it really is about uniformity, then I
21 think that the recommendation would be to change
22 Vornado.
23 Now, academics were very concerned about the
24 content, and I actually don't think that that concern
25 about content was entirely missing today. People

1 expressed satisfaction with the CAFC's holdings, but
2 we've heard things like sweeping unnuanced dicta, and
3 people talking about how holdings in the mainstream,
4 this dicta is probably going to start trickling into the
5 case law, and that that might be a problem.
6 Also this afternoon, people loosened up a little
7 bit, not wild, stare undecisis Federal Circuit activism,
8 we heard from Cecil Quillen about uncertainty and
9 unpredictability in the court and from Judge Ellis as
10 well. Yesterday, of course, there was a lot of talk
11 about the content of decisions.
12 This notion of obviousness standard being so
13 easy to meet, coupled with the very, very narrowing
14 scope of patents means that everyone gets a patent, but
15 the patent doesn't cover very much. That would be an
16 okay rule, people said yesterday, if that were really
17 the best system, but the court never really looks at
18 that question of whether that's a better system or
19 whether the thicket of rights that's being created isn't
20 a really hard thing to work through and we wouldn't be
21 better off with fewer rights, but stronger rights.
22 In other words, people said yesterday that there
23 was kind of a lack of reference to what the economics of
24 the situation is turning into, and a lack of reference
25 to what economists would say about that. There was talk

1 yesterday about Festo, and the court's willingness to
2 have a very inflexible rule on prosecution history
3 estoppel, a rule as to no consideration or sort of
4 linguistics and what can language possibly capture,
5 simply that the Supreme Court did apply to that case.
6 Also things about interlocutory appeal, the lack
7 of interlocutory appeal after the Markman decisions, and
8 the court's unwillingness to pay close attention to the
9 ramification of its own decision in terms of how people
10 actually prosecute their cases through courts. Well, if
11 that's the worry, if the concern is that the content is
12 really wrong, then of course limiting the court's
13 jurisdiction does make a lot of sense.
14 Roxanne Busey said this morning that the
15 antitrust bar would not have wanted a specialized court,
16 and I think Charles Baker accurately captured the
17 feeling of a lot of lawyers at that time as well. In
18 that case Vornado is really a pretty good decision,
19 because it will take a lot of these interface questions
20 and bring them to the several circuits and it will also
21 bring more patent law questions into the regional
22 circuits, that will give greater intuitive change into
23 patent law questions.
24 It might mean that the Federal Circuit will have
25 to explain its decisions a little bit better, which

1 would require them to think more about the ramifications
2 of its decisions, and sort of maybe get into the
3 mainstream on some procedural issues, also.
4 It would also create splits between the
5 circuits, as somebody pointed out, and that might lead
6 to the Supreme Court to grant review on substantive
7 patent law questions, something that it's basically not
8 been willing to do. It's granted cert. on some Federal
9 Circuit questions, but not on very many substantive
10 patent law questions.
11 But there is the on the other hand aspect to
12 this. To the extent you think the CAFC's decisions are
13 bad, or not very adequately reasoned, then exposing them
14 to a broad of context of innovation law and competition
15 issues more generally would actually be a good thing and
16 would improve the decision making in the Federal
17 Circuit. If they saw more competition issues than maybe
18 they would be thinking more about the misuse doctrine,
19 they might want to revive it. So, stripping the court
20 of authority in antitrust cases also has its downsides.
21 Now, the second institutional design issue that
22 we talked about was choice of law, and here I have to
23 say, I was just utterly surprised by the entire
24 discussion that we had today. I guess if you wanted me
25 to say something controversial, this would be it. This

1 notion of federal circuit law or regional circuit law,
2 this came out of Judge Markey's head. This was not in
3 the statute, Markey made this up. He made it up because
4 he wanted, I think he was worried that a specialized
5 court wasn't going to be well received. The last few
6 experiments with specialization had been terrible flops,
7 the Commerce Court was one example, but there were lots
8 of other examples as well.
9 He thought that this would be a way to sort of
10 slip the Federal Circuit in. But there's no such thing
11 as regional law. I mean when we think about conflicts
12 of law, we're used to thinking about conflicts of law.

1 Brandeis said in its hearing against Tompkins, law does
2 not exist with some definite authority behind it. The
3 Ninth Circuit is not a sovereign. The CAFC is not a
4 sovereign. These are not sovereigns. They're all
5 interpreting U.S. law. U.S. is the sovereign in this
6 instant.
7 Of course you could have a rule that said that
8 each circuit has to defer to the interpretations of U.S.
9 law, by other circuits, but that issue was specifically
10 taken up at the time of the Edwards Act. The Edwards
11 Act is what created the regional circuits, until then
12 you went from the district court to the Supreme Court.
13 At that time, the issue came up, should one circuit
14 defer to another circuit's law? And Congress said no.
15 The reason they said no is actually for reasons that
16 we've been talking about here, because percolation would
17 be a good thing. That the circuits each ought to
18 interpret law, that law ought to percolate among the
19 circuits, and then if you need a uniform law, it should
20 gontil then

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1 was that the CAFC would make up its own law.
2 Markey did this weird thing. He had this weird
3 image of the Janice looking in the different directions
4 and all of that, and it might have made some sense if
5 the Holmes decision came out differently. Now that we
6 know, now that you know that at the time the case is
7 filed which circuit the case is going to go to, there's
8 absolutely no reason for the Federal Circuit to apply
9 another circuit's law.
10 If you were deciding who was going to hear the
11 appeal at the time that the case was appealed, then
12 there would be a problem, because the district court
13 wouldn't know what law to apply until the appeal was
14 ready to be filed. But now you know at the beginning
15 where the appeal is going to go to, there's absolutely
16 no reason to have these different circuit laws. If you
17 want percolation, if you want federal values, which is
18 Matt Weil's term, then what you really want is for each
19 court to make up its own law. Of course that would also
20 eliminate the problem of other regional circuits going
21 to apply for Federal Circuit law at the time that they
22 hear patent cases.
23 That's not the scheme that we have for there to
24 be deference, and I think that that scheme that we do
25 have has worked out awfully well over the years and that

1 we probably shouldn't change it. So, I am very puzzled
2 by this idea of CAFC law and Ninth Circuit law, et
3 cetera.
4 Now, I think that a little bit of this concern
5 about the CAFC making up its own law is actually code
6 for people not being all that happy with the quality of
7 the court's decision making. Maybe you all don't want
8 to say it and you're not as willing to say it as
9 academics are, and if that's the real concern, then
10 these hearings are great, it really will give the FTC an
11 opportunity to think about this question of
12 institutional design and there are, of course, lots of
13 ways to change the institutional design.
14 Yesterday we talked about giving the PTO genuine
15 rule-making authority, today we talked about making the
16 PTO the trier of fact and giving it juries, maybe ending
17 this experiment, over the Federal Circuit as you just
18 suggested, moving the expertise to the trial level is
19 another possibility, instead of having a trial --
20 expertise at the appellate level, having it at the trial
21 level.
22 There's also the possibility of changing the
23 venue rules so that you could concentrate all patent
24 cases in just a few circuits, for example, Judge Ellis'
25 court and maybe three or four or five others around the

1 country so that district courts got some expertise but
2 there were still generalist courts, and then of course
3 there would have been new legislative ideas that people
4 have proposed, changing the presumption of validity,
5 changing the secondary considerations legislatively, an
6 opposition proceeding and many other possible
7 legislative changes.
8 So, I really look forward to what you guys come
9 up with. You've got a wonderful set of issues on your
10 plate.
11 MS. GREENE: We do indeed. Thank you for those
12 insights and I want to just basically throw open the
13 table to let anybody who can make additional comments
14 that they wanted to make that they have not been able to
15 make.
16 Steve?
17 MR. KUNIN: My comment is actually a carry-over
18 from yesterday, but I didn't have a chance to say it,
19 but I'm going to take advantage of the shoehorn that
20 Charlie Baker provided when he gave his presentation,
21 and briefly touched on the subject of blocking patents.
22 I think that there's a phenomenon that is
23 overlooked and perhaps because the big brouhaha seemed
24 to have passed because of some changes in their law.
25 Back in the 1980s, there was a big problem with Japan

1 and it was under the general heading of patent flooding.
2 There was a very famous case involving a U.S. company
3 called Fusion Technologies, and basically what was going
4 on was as follows: Because Japan had a system of
5 publication at 18 months of unexamined applications, it
6 would provide competitors of applicants, particularly
7 domestic competitors, to build a fence around the
8 originator's patent, and therefore block further
9 innovation by the originator by putting together
10 applications that were merely incremental changes over
11 the basic technology and just file hundreds, if not
12 thousands of cases to put a fence around the basic
13 patent so that the inventor essentially who came up with
14 the originally technology, in this particular case I
15 think Fusion Technologies was in the electric lamp
16 technology, but the gist of it was that coupled with the
17 dependent patent system -- and if you don't know what
18 the dependent patent system is, in Japan they had a
19 dependant patent system which said that you filed an
20 improvement patent, it automatically gave you a right to
21 use the patent from the basic invention.
22 So, what happened to Fusion Technologies was
23 Fusion got a whole number of people who were willing to
24 take licenses, for what, a very short period of time,
25 because what would happen is after they got -- the

1 competitor got the license and got advantage of the
2 basic technology and a little bit of know-how, then they
3 take the license for a very short period of time, and
4 then they dump it, because they would then improve upon
5 it, and of course since there's a big fence around the
6 basic patent, there was no room to maneuver by the
7 originator. And there was basically total freedom to
8 operate by the downstream innovators.
9 And essentially this led to actually
10 Congressional investigations in the United States, and a
11 seeking basically for trade sanctions to be taken by the
12 United States against Japan, based upon this patent
13 flooding phenomenon.
14 So, I just raise that sort of a historical note,
15 because most of what you hear here is the whole notion
16 of patent blocking, where what you're talking about is
17 how the originator prevents the improvement patents
18 innovators from being able to bring technology to
19 market, because they have this problem of stacked
20 royalties or having to pay tribute to one or more early
21 originators before they can compete in the marketplace.
22 And while I think there's empirical evidence and
23 studies and lots of papers written on that, I think for
24 the record it ought to be stated that there's the flip
25 side of this, too, that should not go unrecognized.

1 The other quick note is, as Cecil indicated, we
2 have gone through the data that he used and will publish
3 papers to show that the asserted allowance rates are
4 quite overstated, that some of the assumptions are
5 incorrect, and also the analysis that shows in terms of
6 comparative allowance rates with Japan and Europe also
7 our use of the same data will show that, in fact, our
8 allowance rates are a lot lower than our counterparts.
9 We are going to have that data published fairly soon.
10 MS. GREENE: Thank you. Yes?
11 MR. HOERNER: As I listened to the presentations
12 yesterday afternoon and today, and I tried to take an
13 overview of an overview of an overview. I got more and
14 more pessimistic, and I ended up with a very Hobbesian
15 conclusion. It seems to me that one could draw the
16 conclusion from all of this testimony that the patent
17 system has become so complex and cumbersome that the
18 very process it is designed to foster, which is
19 innovation, is hindered. Too many patents are being
20 granted on too many minor inventions which patents and
21 the processes for enforcing them clog the system, vastly
22 increasing cost. If this is the problem, I have no idea
23 what the appropriate remedies are.
24 MS. GREENE: Okay. Anybody else? I would like
25 to end on a happier note.

1 Yes, Charlie?
2 MR. BAKER: I just have one thought about
3 Rochelle's, or a couple of thoughts perhaps. She
4 mentioned that it seemed like some people thought the
5 system was great and some people thought the system
6 wasn't. My view is that I came looking at this in terms
7 of the overall purpose of these to decide whether this
8 system should be changed because they've got a change in
9 technology importance, information technology. And in
10 that view, maybe I'm just too practical, but I'm not
11 going to listen to the theorists or the people who can
12 cite a bad example, as you recognized. You shouldn't
13 throw something out because of a bad example.
14 I don't see any great impetus to change the
15 system. Now, if you want tomorrow to have a debate on
16 how we can improve the system, that is to -- I don't
17 want to change it for a new -- the differences in
18 technology, you want to have a new debate tomorrow, or
19 on litigation costs, that's fine. If you want to have a
20 debate about how we improve the quality of the members
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1 that court. Is that a good applicant? That's something
2 I didn't address in my topic, but if the issue is the
3 quality of the decisions coming out of the Federal
4 Circuit, that's at least one thing that you might
5 consider.
6 So, that to me explains the overall difference,
7 and what I've heard. I think that it's perhaps somewhat
8 a question of half full or half empty and it's not only
9 a question of what are you focusing on, you're focusing
10 on extreme issues and how you want to tinker with it to
11 improve it or whether you want to radicalize it.
12 MR. HOERNER: I didn't say you should.
13 MR. BAKER: I didn't say you should either.

1 terribly imponderable problem.

2 And so with that, I think that's a perceptive
3 observation on his part, and one that I think you all
4 need to keep in mind as you decide where we go from
5 here.

6 The second point is Rochelle's observation that
7 there is no law for the regional circuits. Having
8 signed a brief back at the time of the JS&A versus Atari
9 case when I was grappling with the very real problem of
10 what is the Federal Circuit going to do in terms of
11 procedural rules, the qualification of experts for
12 patent cases, and a lot of the other mundane stuff that
13 doesn't really relate to Title 35, district judges
14 sitting in California were quite accustomed to applying
15 a whole panoply of rules emanating from the Ninth
16 Circuit, and what I've always thought of as Ninth
17 Circuit law is just the rules that the courts in the
18 Ninth Circuit have gotten used to using.

19 And except for Teka [phonetic], which I was sort
20 of surprised by the concurring opinion of judge --

1 different circuit courts.

2 So, notwithstanding the legal theory about

3 whether circuits actually have their own law, I never

4 thought about it until I heard you say it, and I

5 understand the point, but I would suggest to you that

1 discussions very early on, on February 27th in the
2 afternoon, actually, and because Bob had a very
3 interesting and valuable exchange with Commissioner
4 Leary, excuse me, during that hearing in which they
5 started to grapple with some of the ways in which patent
6 law versus antitrust law deal with sort of the long-term
7 and the short-term and that type of thing, and it's
8 interesting that it's, you know, sort of -- it arises

1 we are currently working with.

2 And last but certainly not least, let me just

3 thank you all so much for having attended today.

4 Absolutely incredible panel. Thank you very much, and I

5 had asked Susan DeSanti, who is our Deputy General

6 Counsel for Policy Studies, what should I say at the end

1 permission. Thank you very much.
2 (Whereupon, at 4:20 p.m., the hearing was
3 adjourned.)
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1 C E R T I F I C A T E O F R E P O R T E R

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3 DOCKET/FILE NUMBER: P022101

4 CASE TITLE: COMPETITION AND INTELLECTUAL PROPERTY LAW

5 AND POLICY IN THE KNOWLEDGE-BASED ECONOMY

6 HEARING DATE: JULY 11, 2002

7

8 I HEREBY CERTIFY that the transcript contained

9 herein is a full and accurate transcript of the notes

10 taken by me at the hearing on the above cause before the

11 FEDERAL TRADE COMMISSION to the best of my knowledge and

12 belief.

13 DATED: 7/15/02

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16 Sally Jo Bowling

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18 C E R T I F I C A T E O F P R O O F R E A D E R

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20 I HEREBY CERTIFY that I proofread the transcript

21 for accuracy in spelling, hyphenation, punctuation and

22 format.

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25 Sara J. Vance