

FEDERAL TRADE COMMISSION

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In the Public Hearing on:)
COMPETITION AND INTELLECTUAL)
PROPERTY LAW AND POLICY IN)
THE KNOWLEDGE-BASED ECONOMY.)
-----)

October 25, 2002
Room 432
Federal Trade Commission
6th Street and Pennsylvania
Ave., NW

The above-entitled matter came on for hearing,
pursuant to notice, at 10:05 a.m.

WORKSHOP CHAIRPERSONS:

- Hillary Greene, FTC
- William Cohen, FTC
- Susan DeSanti, FTC

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1 PANEL ON: Competition, Economic and Business
2 Perspectives on Patent Quality and Institutional Issues:
3 Competitive Concerns, Prior Art, Post-grant Review and
4 Litigation

5

6 Panel Members

7

8 R. Bhaskar, Senior Research Fellow, Harvard Business
9 School

10 Scott Chambers, Arnold and Porter, and Adjunct Faculty
11 Member at Georgetown Law Center and The George
12 Washington University Law School

13 Q. Todd Dickinson, Howrey, Simon, Arnold and White, and
14 Former Under Secretary of Commerce for Intellectual
15 Property and Director of the U.S. Patent and Trademark
16 Office

17 James B. Gambrell, Visiting Professor, The University of
18 Texas School of Law

19 Melvin C. Garner, Darby and Darby, Second Vice President
20 of American Intellectual Property Law Association

21 Brian Kahin, Visiting Professor and Director, Center for
22 Information Policy, University of Maryland

23 Jay Kesan, Assistant Professor of Law, University of
24 Illinois College of Law

25 Jeffrey Kushan, Sidley, Austin, Brown and Wood

1 Nancy J. Linck, Senior Vice President, General Counsel
2 and Secretary, Guilford Pharmaceuticals and Former
3 Solicitor for the U.S. Patent and Trademark Office
4 Stephen A. Merrill, Executive Director, Board on Science
5 Technology and Economic Policy, National Research
6 Council/ National Academy Of Sciences
7 Robert Taylor, Howrey, Simon, Arnold and White
8 John R. Thomas, Professor of Law, Georgetown University
9 Law Center

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1 PROCEEDINGS

2 MS. GREENE: We have so much to cover that we're
3 going to start straight away, even though one of our
4 panelists is not with us. I'm sure he's making his way
5 from the airport.

6 Good morning, and welcome to today's panel on
7 patent quality and institutional issues. My name is
8 Hillary Greene, and I'm joined by Susan DeSanti and Bill
9 Cohen, and we are from the Federal Trade Commission's
10 Office of the General Counsel.

11 I'm sitting here, and I'm looking at Todd
12 Dickinson, and I am thinking wasn't it just yesterday
13 that you were here giving the key note address?

14 MR. DICKINSON: It seems like it.

15 MS. GREENE: It does seem like that. Even
16 though it seems like that, it was in fact about nine
17 months ago, and from our perspective here, that was
18 actually 30 sessions ago and over 150 panelists ago, and
19 what we are here to do during these three days of
20 roundtable discussions is to better understand and perhaps
21 synthesize the business, economic and legal testimony
22 that's taken place over the course of the hearings.

23 In terms of today's panelists, we're grateful
24 that you all are here, and you are all obviously far too
25 accomplished for me to begin to introduce you in any

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1 meaningful way, so I'm going to give two sentences on
2 each, and then I direct everybody in the audience to the
3 packets that we have out front, which contains their
4 bios and gives lots of insight into what they've done,
5 and I also ask the panelists not to be bashful. Lots of
6 you have specific experience on these issues and just
7 bring to our attention what that specifically is.

8 Let me start now with Dr. Scott Chambers, who's
9 an attorney with the D.C. office of Arnold and Porter.
10 Before joining Arnold and Porter, he was an Associate
11 Solicitor at the PTO where he handled general legal
12 matters and appeals from the agency to the Court of
13 Appeals for the Federal Circuit and district courts in
14 matters involving biotech, chemistry and
15 pharmaceuticals.

16 We then have Q. Todd Dickinson, who is a Partner
17 at Howrey and Simon, and prior to joining Howrey, he was
18 the Under Secretary of Commerce for Intellectual
19 Property and the Director of the U.S. PTO.

20 Next we have James --

21 MR. DICKINSON: Arnold gets very cranky if you
22 don't say Howrey, Simon, Arnold and White.

23 MS. GREENE: Did you get that? James Gambrell
24 who is a consultant on IP matters and also teaches at
25 the University of Texas School of Law. He has over 40

1 years of experience as an economics instructor,
2 engineer, trial lawyer, professor, expert witness,
3 government advisor, and that includes a role as Special
4 Assistant to the Commissioner of Patents and Director of
5 the Office of Legislative Planning in the PTO in the
6 early 60s.

7 To his right, we have Melvin Garner, who is the
8 Second Vice President of the AIPLA and a member of the
9 New York City firm of Darby and Darby.

10 Next we have Dr. Jay Kesan who is an Associate
11 Professor of Law at the University of Illinois College of
12 Law. Processor Kesan teaches and writes extensively in
13 the areas of patent law, intellectual property, law and
14 regulation of cyberspace and law and economics. He is a
15 registered patent attorney and previously practiced law.

16 Next we have Jeff Kushan, who is a Partner at
17 Sidley, Austin, Brown and Wood. He is a former Biotech
18 Patent Examiner, and he developed the examination
19 standards for biotech and software inventions -- the
20 examination guidelines, sorry.

21 Next we have Dr. Jonathan Levin. He is an
22 Assistant Professor of Economics at Stanford University,
23 and he is currently a National Fellow at the Hoover
24 Institution.

25 Next we have Dr. Nancy Linck, Vice President and

1 General Counsel and Secretary at Guilford
2 Pharmaceuticals in Baltimore, Maryland. She, prior to
3 joining Guilford, was the Solicitor at the U.S. PTO for
4 four years.

5 Next we have Dr. Stephen Merrill, and he is the
6 Executive Director of the National Academy's Board of
7 Science Technology and Economic Policy since its
8 formation in 1991, and the STEP Program is currently in
9 the midst of a project, which I will defer to you to
10 explain as you see fit.

11 Next we have Bob Taylor, who is the Managing
12 Partner of the Silicon Valley of Howrey, Simon, Arnold
13 and White, LLP, and he is the former Chair of the
14 Antitrust Section of the ABA and a member of the
15 Advisory Commission on Patent Law Reform.

16 And we have just been joined by Dr. R. Bhaskar,
17 who is a Senior Research Fellow at Harvard Business
18 School. Bhaskar is also an alum of our offices, and
19 before arriving at Harvard, he was on the legal staff
20 here where he was concerned with issues at the
21 intersection between info technology and antitrust law.

22 So thank you all for joining us. We're
23 delighted you're here, and an additional point, the
24 Department of Justice will not be participating in
25 today's sessions of these joint hearings on Competition

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1 and Intellectual Property Law and Policy in the Knowledge-
2 Based Economy. The Department will resume its
3 participation in these hearings at the November 6 session.

4 Now, the agenda for today is pretty simple, and
5 that is for us to ask a lot of tough questions. These
6 are the questions that have emerged from the hearings,
7 so we're just reflecting back what you have all been
8 asking one another. And to give you all still more work,
9 I need for you to ask one another questions as well as
10 attempt to answer the ones we ask.

11 In terms of logistics, we will be addressing
12 four topics, two in the morning, two in the afternoon
13 with roughly, but not quite equal time devoted to each.
14 We'll have a lunch break from 12:30 to 2:00 and two
15 very, very short breaks at about 11:15 and one shortly
16 before three, and we will have two more panelists
17 joining us for the afternoon session, and I'll introduce
18 them at that time.

19 Transcripts will be going up on the web from
20 today's hearing. As the panelists all know, today we
21 will not be having any formal presentations, either
22 powerpoints, that type of thing, but the panelists and
23 everybody else are invited to submit comments to the
24 hearings through November 6.

25 Today we want to address or further address, I

1 should say, four general topics, and those are patent
2 quality with a special focus on access to prior art,
3 re-examination/post-grant review. Third one is
4 litigation, and the fourth is economic and competition
5 policy considerations, what we're calling as shorthand
6 institutional issues.

7 These are self-evidently important in terms of
8 the broader functioning of our patent system and its
9 consequences for competition. They also implicate many
10 of the broader issues underlining our inquiry. For
11 example, the issue of PTO access to prior art brings to
12 the floor that sometimes the best patent system may mean
13 accepting a certain amount of error.

14 And with regard to re-examine/post-grant review,
15 it goes further to the question of how, when, and at what
16 cost to address potentially invalid patents, and
17 with any procedure, it's something that could be gamed
18 or misused in some way.

19 Litigation underscores, among other things, the
20 way burdens and presumptions are established and the way
21 they sort of fall out between the institutions.
22 Obviously we'll focus in part on presumption of validity,
23 clear and convincing evidence.

24 Lastly, we have economic and competition policy
25 considerations. And these considerations are what

1 animate all of what we are looking for in these topics,
2 the economic and competition policy concerns, but what
3 we want to do in this last section is sort of focus in
4 on the institutional components, sort of make it
5 somewhat more concrete.

6 So let's start with both our first question and
7 the question that's going to run throughout the entire
8 day, and that is: what are the competitive concerns
9 raised by the issuance of invalid or potentially invalid
10 patents? There are a lot of proposals on the table
11 about this, and there are probably advantages or
12 disadvantages to them in how they'll address the
13 competitive concerns.

14 We're going to raise lots of questions
15 throughout today's roundtable, but these are the two
16 things that will be the touchstone for the inquiry,
17 which is: what are the competitive concerns raised by
18 the invalid patents? And what are the advantages or
19 disadvantages and potential ways to address them?

20 One last note to sort of put us in sync with our
21 next roundtable, on October 30 we'll be having a roundtable,
22 and at least for this morning's sessions, what we
23 wanted to do was to assume that the substantive
24 standards, such as obviousness, can be taken as a given
25 and don't raise competitive concerns. And that would

1 then enable us to focus more on the implications of the
2 procedures surrounding the grant of patents.

3 That constraint is going to be loosened,
4 obviously, over the course of the day and entirely in the
5 afternoon, particularly when we address the
6 institutional issues. And then next Wednesday, we are
7 going to directly tackle some of the competitive issues
8 raised by substantive patentability standards.

9 So with no further adieu, let me just repeat our
10 first question and underlying question. What are some
11 of the competitive concerns raised by the issuance or
12 potential issuance of invalid patents? When you want to
13 speak, just turn up your table tents so that we know to
14 call on you, and let me turn it over to you all.

15 MR. DICKINSON: Maybe we should start out with a
16 legal point, that the U.S. PTO doesn't issue invalid
17 patents. All patents which the U.S. PTO issues are
18 presumed to be valid. Whether, again, they are later
19 found to be invalid or art is derived or provided to the
20 office during our say re-exam, at which questions arise
21 to a previously issued patent, would affect that.

22 But again, taking the point that you made, I think
23 the big challenge obviously, the big competitive concern
24 is that invalid or patents which were later held to be
25 invalid during the period between their issuance and

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1 cost of what the service is, and the Congress and
2 successive administrations have chosen to divert some of
3 that revenue away, and that can only have a negative
4 impact on quality.

5 The office does a very good job, in my opinion,
6 with the resources that they have. This is not a
7 matter, I don't think, of moving from really terrible to
8 good. I think it's an issue of moving from very good to
9 even better.

10 MS. GREENE: Mel?

11 MR. GARNER: One of the things that I would like
12 to point out is that while invalid patents clearly have
13 a negative economic effect, some of it is secret, that
14 is, companies behind closed doors look at a patent,
15 assume it's valid and will take action based on the
16 assumption that it's valid.

17 But, in many instances they have company counsel
18 review something, review a patent, and may decide that
19 it's not valid and go ahead with their normal business
20 plans, assuming that they can defeat it and they've
21 already got their plans in order if they do get a
22 challenge.

23 I think that by and large, the number of invalid
24 patents that have a significant economic impact is
25 relatively small. There are tons of patents that are

1 issued that never have any economic impact whatsoever.
2 They merely add to the collection of knowledge in the
3 world, and the few cases where a patent does have a
4 significant economic impact, there's motivation for
5 people to find the prior art to defeat that patent, and
6 sometimes it's not a full-blown litigation.

7 I have had a number of cases in which we've been
8 able to find prior art, we've shown it to the
9 plaintiff, and the plaintiff has stopped the case. So
10 while I think it's a goal of everyone to increase the
11 level of the validity of patents, it's not a crisis
12 situation that I think we're in.

13 MS. GREENE: All right. Let me turn to Nancy
14 and also just throw out that I would love for additional
15 people to comment on how you've characterized the
16 calculus of a company facing patents out there and
17 whether or not they're valid or invalid and how they
18 make their business decisions. Dr. Linck?

19 DR. LINCK: Thank you. I would like to
20 follow-up on what Todd said about quality and the
21 examination in the office. As I've testified before, I
22 really think the examination that we get, the first
23 round, is more than adequate, and since I have testified
24 to that point, the PTO has proposed its 21st Century
25 Strategic Plan, which puts a lot of emphasis on

1 improving quality, but at a very high price.

2 They have also proposed a budget -- and I'm not
3 against increasing the fees to the office. I think that
4 needs to happen to some degree -- but the budget they're
5 proposing is huge, and I think it's going to put a huge
6 burden on companies who want to get meaningful patents,
7 and of course in my industry, the drug industry, patent
8 protection is everything.

9 We would not have proprietary drug companies
10 without strong patent protection. So, paying double or
11 triple the fees to get those patents that we need will,
12 in fact, burden my company and will, in fact, probably
13 end up in us filing less patents than we need to, to
14 adequately protect our inventions.

15 As I've also testified before, I think the
16 answer is a strong post-grant/re-examination and perhaps
17 opposition system. I won't go into that right now
18 because I know that's question number two, but I would
19 really rather see the focus there, than on a great
20 emphasis on increasing the quality for every patent
21 that's examined.

22 I think as Mel said, most of the patents that
23 issue are valid. They aren't challenged. It's a very,
24 very small number that are invalid, and yes, they can
25 play havoc with the system. With respect to my own

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1 company, I have had a number of patents put before me
2 that I believe are invalid that we have to find some way
3 to deal with.

4 If, in fact, the re-examination system, and I
5 think we're close, was strong enough, I certainly would
6 use re-examination to challenge those patents, but it's
7 difficult to know what to do when you are being
8 challenged with an invalid patent or patents.

9 Thank you.

10 MS. GREENE: Jim?

11 MR. GAMBRELL: I think one of the first
12 problems, as Todd suggested, there are no invalid
13 patents issued. In fact, there are many invalid patents
14 issued, and I'm sure Mr. Dickinson recognizes that as
15 well as I do. And the in terrorem effect of a patent that
16 shouldn't have issued could be substantial, particularly
17 on small businesses.

18 It doesn't bother a large company because they
19 handle potential infringements every day -- but we're
20 trenching into the fourth question of what the
21 obviousness standard is. But, the patent office issues
22 some patents that they should be ashamed of issuing, and
23 in fact, how to swallow a pill, how to properly put, how
24 to properly swing a child in a swing and these kind of
25 patents have a presumption of validity.

1 Unfortunately, the reason a lot of them are
2 issued is because the CAFC insists that unless they find
3 an express reference, they are foreclosed from
4 refusing a patent, and indeed these should be subject to
5 the common sense of nearly anybody in the industry that
6 they're silly, stupid patents and should have never seen
7 the light of day.

8 I think the biggest problem though, is one that
9 perhaps Dr. Linck refers to, I'm not sure we know that
10 you have to have patents in order for intellectual
11 property growth to happen and economic growth. We take
12 that as a given, but I'm not at all sure that drug
13 companies, for example, would not innovate and would not
14 research if they had less rights.

15 The fact is we haven't ever tested that. We have
16 an article of faith that patents are directly related to
17 economic growth and progress, and if we don't have a
18 strong patent system, our entire technological
19 foundation is going to go down the drain.

20 I think that's a serious assumption and one that
21 we have not yet really fully anticipated or evaluated.

22 MS. GREENE: Jon?

23 MR. LEVIN: I'll chime in with an economic view
24 on the first question.

25 So I think Mel makes a very good point, that

1 there's relatively few patents that have economic
2 significance that might be invalid relative to perhaps
3 the patents that Jim is talking about, which don't
4 really have economic significance. But in the cases
5 where there is a real question of validity that is
6 debatable among the different sides, potential
7 infringers and the patent holder, it seems that there's
8 at least three potentially significant economic costs.

9 The first of those is litigation, and as I'm
10 sure all of you know, there are many studies showing
11 that litigation costs are very high for patenting firms.

12 The second is just the idea that a firm that's
13 granted an invalid patent, if they are able to extract
14 licensing fees, because that's in some sense an unjust
15 enrichment, that's distorting the incentive system that
16 the patent system has been established to provide in the
17 first place.

18 Then finally, it has a negative incentive effect
19 on follow-on research and development because firms,
20 if they're unsure if they will be infringing on that patent
21 or whether they'll be able to get that patent invalidated,
22 either they may be deterred by the prospect of having to
23 pay a large settlement fee to license, or they may be deterred
24 by the prospect of litigation, and so that's going to have a
25 deleterious effect on R&D, and that seems like a

1 potentially serious economic problem.

2 MS. GREENE: Jeff?

3 MR. KUSHAN: It's always good to hear a few
4 other views between the time you put up your sign and
5 the time you speak.

6 MS. GREENE: You could have been first.

7 MR. KUSHAN: No, no, no. I think I'm much
8 happier where I am.

9 MS. GREENE: We were waiting.

10 MR. KUSHAN: I think Todd and Nancy's points
11 about the resources PTO has to do the work they have is
12 kind of the symptom that we need to focus on as a primary
13 issue in terms of quality.

14 You look at the landscape in front of the PTO,
15 it's got a very tough business to run. You have an
16 insane budget office, not us, not the patent office, but
17 the Congress and the OMB, who basically, in an
18 unpredictable way, take a large chunk of their budget and
19 throw it away, so the ability to plan is just not
20 there. That impact is huge.

21 The planning part is particularly important
22 because if you look at the patent office as a very large
23 widget factory where you have a number of employees, you
24 have a number of inputs of applications coming in, a
25 number of outputs, presumably valid patents, you have to

1 design systems within the constraints that you've got as
2 far as examiners, salary, all these other variables.

3 Nancy and I have spent many years looking at how
4 to, kind of, essentially design flows of work through the
5 PTO core to produce a high preponderance of success and
6 validity. So you have examination standards that look to
7 make certain decisions easier for the examiner so they
8 can reach the right output, which is a valid patent.

9 At the end of the day, some of the thinking that
10 you see expressed in this big Strategic Plan is very
11 healthy for the system to figure out how it can process
12 more patents more efficiently, essentially less time per
13 case with the same threshold of confidence, of validity,
14 that they made the right decision. So that's a big area
15 of work.

16 Now, as far as the impact, I mean, it's not
17 little companies that have pain and suffering when you
18 get hit with an invalid patent. Big ave pain a2Bte them
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1 has. So I wouldn't diminish the negative effect of
2 invalid patents on big companies versus little
3 companies. I mean, it's felt everywhere.

4 I'm also a realist. I mean, doing business in
5 today's world has a transactional cost. The
6 transactional cost that most people face on legitimate
7 questions of validity is fair. You pay a patent
8 attorney a relatively nominal amount of money to do an
9 assessment of the validity of the patent. That is a
10 fair transactional cost for doing business in a
11 multimillion dollar market. It's part and parcel of
12 what you're going to do.

13 I think the thing that is frustrating is when
14 you see these patents which come out, which are true
15 aberrations, they're not issues of gray areas of
16 obviousness, they're why did this patent issue 27
17 years after it was filed and why did it come out with
18 claims that dominate the industry now?

19 There's no exemplification. There's nothing
20 there to support the claims. Those aberrations are
21 probably the thing that cause the most attention among
22 companies and probably catch the attention of the public
23 sector, and notwithstanding the stupid patents that Jim
24 mentioned -- I'm not particularly concerned about stupid
25 patents being issued by the patent office.

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1 If you have 300,000 cases coming in and 175,000
2 coming out, the fact that you can issue a patent in 1992
3 on a paper clip is probably a risk we can take. That's
4 not, I think, the proper focus of concern. The proper
5 focus of concern are those patents that come out that
6 are outside the gray area for the patent validity
7 assessments of obviousness, enablement, a written
8 description.

9 Like Nancy, I'm gravitating to what I think is
10 the obvious solution, which is an outlet to fix those
11 invalid patents without the risk of massive liability
12 for patent infringement, which is re-exam or some kind of
13 post-grant challenge.

14 If you look at the two variables that could
15 probably have the biggest impact on making everybody
16 happier, as far as the output, we need better systems
17 that let examiners get to the right answer faster than
18 what they do now, and second, we need the re-exam
19 challenge or the post-grant challenge to take care of
20 clearly invalid patents that you can fairly challenge
21 through an administrative proceeding.

22 The gray area of patents where it is a judgment
23 call on whether it's obvious or not, those probably are
24 always going to go back to the courts. I don't see why
25 we shouldn't use the courts to do the tough calls on

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1 known and the lid is known and the only thing that I've
2 come up with is the spout added on to the bucket with a
3 handle, then the claim should reflect that.

4 If the claims don't reflect that, and I instead
5 get a claim on a bucket, then there's a huge
6 anti-competitive concern because now anyone who wants to
7 improve on the bucket certainly has to come to you.
8 You've got all kinds of people designing around things
9 that you never hear about, that you never know about,
10 and you've got a whole massive amount of opportunistic
11 licensing behavior that's possible here.

12 There's a serious cost differential between
13 getting a patent and between taking a patent down. It
14 cost 25 to \$50,000 to get a patent. That's being very
15 generous, and even to initiate the litigation, it takes
16 about \$300,000. Let's set aside full blown trial.
17 Let's set aside all that. Just simply to start talking
18 and have some basic discovery of the prior art, very
19 soon you're talking hundreds of thousands of dollars.

20 So that kind of cost differential, I mean, any
21 economist understands, and I think that was part of the
22 point that Jon was trying to make, and that is, when you
23 have that kind of cost differential, then you have all
24 kinds of opportunistic behavior that becomes possible.

25 Even then if you do have a kind of transaction,

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1 third parties are absolutely not involved. In other
2 words, when you've worked out some kind of a licensing
3 deal, third parties don't know. It's only this one
4 person who may have good prior art.

5 As far as giving more resources to the PTO goes,
6 I think what we're really dealing with here is
7 specialized and localized knowledge, and I'm not
8 necessarily convinced that simply giving 5 or 10 or 20
9 more hours for patent prosecution is necessarily going
10 to do it. I think there are other ways of bringing
11 people in the know, who are similarly situated as the
12 patentee, and want to bring those people in.

13 As far as, should we even have a patent system
14 or not, it seems to me that when you're dealing with
15 high tech, you're dealing with a very basic economic
mo00 5reality, and that is that you have very high fixed costs1ot2otha (re

1 generally charged with taking the broadest reasonable
2 interpretation of the claims, and when they are an

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1 provide it to the Patent and Trademark Office, they were
2 basically going to provide it to everyone, and that can
3 make some concern. If you have labored to create this
4 database, you don't necessarily want to turn it all over
5 to your competitors.

6 In terms of what Jim has said about patents,
7 that there are really no studies that show the value, I
8 could not disagree less. I think that just the
9 indication that the cost of research is so great and
10 that there is no way to stop the free rider policy,
11 suggests that you've got to have some way to protect the
12 investment as increased costs for research -- or as
13 research increases in cost, you have to have additional
14 ways to deal with people who are going to try and take
15 that information or take the fruits of that.

16 I have told clients in the past in certain
17 situations not to bother pursuing certain areas or
18 certain products because they couldn't assure me, or I
19 couldn't assure them, that they were going to have a
20 clear ownership right.

21 So I think that the value of patents really
22 can't be disputed. There are a certain number of
23 problems that come out from a large number of patents
24 getting issued that may seem to be too broad, but I
25 think the system has within it the ability to deal with

1 that, if we allow that system to work and have a pretty
2 experienced patenting core.

3 Often people look historically at the patenting
4 core, and if you look at the period say 1970 to 1985,
5 you find that you had a relatively small patenting core,
6 and that they stayed there a long time. I think in
7 1970, that there was about a thousand examiners, and by
8 1980, there were about 860, that it had actually
9 decreased.

10 As a result, these examiners were quite familiar
11 with the field, and they had an institutional knowledge
12 for particular narrow areas that was just truly
13 amazing. They could actually tell you where to go, that
14 it would be the third patent on the shoe that would deal
15 with the particular problem that you were having, and
16 that is all lost when examiners don't stay around.

17 MS. GREENE: Right. Are there any other changes
18 that you noticed in the examination approach?

19 MR. CHAMBERS: Actually, I think that there is a
20 difference in the way that the young examiners look on
21 patents, that when I was starting out as a patent
22 examiner there was a feeling that you were protecting
23 the public from bad patents, and so that one of the
24 things you wanted to do was make sure that the claims
25 were narrow, make sure that the claims were valid, and

1 you paid special attention to that.

2 I don't know that the examiners view their role
3 as protecting the public anymore. I think more often
4 than not they view their role as protecting the
5 customer. And the customer, according to the patent
6 office, is the individual filing for a patent. It seems
7 like a pretty classic instance of agency capture.

8 MS. GREENE: Steve?

9 MR. MERRILL: In many of these questions, it
10 seems to me important to ask, with respect, for example,
11 to Jonathan's enumeration of possible costs, what's
12 changed? Is there reason to be more concerned? And
13 that's also in relationship to whether one believes the
14 quality of examination has improved or deteriorated or
15 remained the same.

16 What's changed, I mean by that what's changed in
17 the use of patents. And I would suggest that there's a
18 growing amount of evidence that the extent of defensive
19 patenting and aggressive licensing suggests that the
20 potential social costs are of greater concern than they
21 were before, that assertion of patents is much more frequent
22 than was the case before, that a number of companies
23 have learned that it is lucrative, if not predictable,
24 to aggressively license patents, and therefore the
25 potential costs are probably greater than they have been

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1 The cost to the patent owner, when a patent goes
2 into litigation, often are as much or more than the cost
3 to the party being sued.

4 The reason there's a great deal more resources
5 going into patent litigation today, to my mind, is a
6 reflection simply of the fact that patents, as an
7 entity, have acquired a vastly greater amount of
8 economic significance. And my guess is -- I don't have
9 any data on this -- but my guess is the amount of money
10 that changes hands as a result of licensing, far exceeds
11 the amount of money that's spent on patent litigation.

12 Patent litigation is a very thin slice of what
13 goes on within this system, and technological property
14 has become the most important economic asset of the
15 United States economy. So you would expect there to be
16 some transaction costs in administering a property
17 system. These are difficult property rights. They're
18 not like real estate boundaries where you can send a
19 surveyor out to drive stakes in the ground and draw
20 straight lines and say, that's a property boundary.

21 These are very difficult property boundaries to
22 draw, and there is inherently a transaction cost that
23 goes with them. But I think that on balance, when you
24 look at the impact of this system, you get a much more
25 complete picture by focusing on the total value of the

1 information and technology that's changing hands as a
2 result.

3 MS. GREENE: Bhaskar?

4 MR. BHASKAR: Good morning. I want to begin by
5 thanking Susan DeSanti and Hillary Greene and Bill Cohen
6 for inviting me --

7 MS. GREENE: On behalf of the court reporter,
8 speak into the mic. Thank you.

9 MR. BHASKAR: I want to begin by thanking you
10 for inviting me, and as I've been listening to this
11 discussion, it's just fascinating to see how many
12 different points of view there can be about the subject
13 of concern, and how little the points of view, however
14 valid or important they are, necessarily have to do with
15 one another.

16 The sort of thing I'm thinking about is I find
17 Bob's comment, just a moment ago, about the nature of
18 technological property extremely persuasive. I think
19 that we have a patent system that's approximately 200
20 years old and was designed to facilitate the transfer of
21 agricultural wealth to industrial wealth. And it seems
22 to me that what we are watching is, of necessity, the
23 collapse of one kind of system and the development of a
24 new system that will facilitate the transfer or creation
25 of wealth in a new domain, the informational domain.

1 I will actually put almost all new technologies,
2 electronic, biological, genetic -- all of those things,
3 I would put them in the information category, and I
4 think one of the things we have to ask is, what is the
5 public purpose? I don't know what the public purpose is
6 in the patent office, and so I want to pose a question
7 as a way of understanding this and a question to any of
8 you.

9 What is a good patent?

10 MS. GREENE: Jeff?

11 MR. KUSHAN: Actually, kind of as you suffer
12 through the process of trying to figure out what patent
13 quality is, I mean, if you look at, just over the last
14 ten years, if the patent that was issued ten years ago
15 is measured against today's standards for written
16 description, enablement and other criteria, it's very --
17 it may die. It was perfectly valid back then, and so
18 that area of quality is, I think, never going to be easy
19 to measure.

20 I take a much more simplistic perspective, maybe
21 almost a transactional perspective to quality which is,
22 I want to know what happened inside the patent office,
23 which means that the file wrapper that gets produced,
24 nine times out of ten, is cryptic. We can pick up any
25 case you look at today, and you'll see vigorous

1 rejections put out in the first office action, and then
2 a seemingly incoherent response comes in, and then the
3 rejections go away.

4 You look at this patent and you say, what was in
5 the mind of the patent examiner when they issued this
6 patent? I mean, this is certainly kind of a somewhat
7 comical perspective on it, but there are many patents
8 out there which don't tell the story: what happened? What
9 were the variables that were in the mind of the
10 examiner when they issued the patent?

11 If you look at what the core standards are
12 focused on, so much now it is what the patent examiner
13 had in his mind when they granted the patent: what was
14 the representation of the office? And what was the
15 representation of the applicant to the office that
16 induced the patent grant?

17 Estoppel variables under Festo, written
18 description, characterization of the invention by the
19 applicant, these standards that seem to be out there are
20 calling for a more informative file wrapper. So I guess
21 at the end of the day, quality in my mind is going to be
22 a better documented file wrapper that can give a better
23 picture of what happened inside the PTO.

24 Maybe that's a fairly low threshold to set for
25 quality, but at least it would allow us, as a consumer

1 of this product evaluating the patent, to get a better
2 insight of what the likelihood is that a broad claim is
3 going to survive or fall, and it's difficult because to
4 produce that more informative file wrapper, will require
5 more examiner time. So we have to figure out how to
6 reconcile that conflict.

7 MS. GREENE: So we have the conflict or the
8 confluence of questions of quality and transaction
9 costs, and I just wanted to sort of throw out on the
10 table as an additional point for consideration: do the
11 current procedures provide the PTO adequate access to what
12 they need in order to recently examine the patent applications?

13 I'll further throw out sort of the specifics of
14 some of the things that we heard are questions of whether
15 there should be some obligation of the patent applicant
16 to search documents in their possession? Whether or not
17 there should be some requirement of discussion of
18 relevance on the part of the patent applicant regarding
19 the prior art? So let me just add that to the mix
20 and turn to Mel.

21 MR. GAMBRELL: Let me comment on that. Let me
22 clarify one point. I'm not against the patent system.
23 It seems to me the important point is to decide how much
24 exclusivity you need to give to people by virtue of
25 intellectual property in order to increase technological

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1 important, this man or this woman has made a fantastic
2 invention, and unless we find something devastating
3 effective against it, we're going to affirm it.

4 That makes sense. In the first place, it
5 belittles the patent office and the job it does. Way
6 back in the 60s when I was at NYU, one of my students
7 did a Ph.D. thesis on whether there was a standard of
8 invention in the courts that was quite different than in
9 the patent office, and in fact Ms. Koenig found there
10 wasn't any difference when you're talking about prior
11 art. There was no statistically significant
12 difference.

13 The court was absolutely sure it was, but, in
14 fact, there wasn't, and I think that's why we need
15 research on how much rights do we give patent owners and
16 patent creators in order to bring forth their
17 inventions, and at the same time not unduly restrict
18 competition.

19 I think we've quit looking at that. We've sort
20 of considered now that all patents are good, and some
21 are better. Now, obviously I think some incentive is
22 necessary to bring forth inventions and cover the cost
23 of developing them and bringing them into commercial
24 existence. But the question of how much and how long is
25 a question that we deal with more in emotion than we

1 deal with in fact. And I sometimes think that neither side
2 really wants to do much research on it for fear that it
3 will come out some way differently than what they presupposed
4 it would be.

5 Nobody is quite as sure of the facts as a person
6 that's uninformed, and as the king in the King and I
7 said aptly, "what we need to do is to decide where that
8 line is." The Federal Circuit, for example, pretends to
9 look at patents from the standpoint of the scope of the
10 patent and ignores the impact it has on the competitive
11 process, and I think that that's looking at the wrong end of
12 the gun.

13 I think we need to decide how much we need to
14 give people in order to get the development and not give
15 them anymore than that, and I think we tend to quit
16 thinking about it, and I'm not worried about worthless
17 patents. I don't disagree with the point that they
18 don't create a great problem, but let me tell you, I've
19 tried enough lawsuits and handled enough cases for
20 litigants on both sides of the fence to recognize that
21 the threat of a patent suit is a substantial threat,
22 whether you're large or small.

23 I think it's important that we do give the
24 examiners better access to art and do have an
25 opportunity to see that they raise the standard as to

1 where they draw the line between an exclusive grant and
2 a rejection.

3 MS. GREENE: Thank you. Mel?

4 MR. GARNER: The first thing I want to say is

1 probably dozens and dozens of blood pressure medications
2 that work in dozens of different ways.

3 The first guy, or first person, to do that
4 essentially provoked this explosion of technological
5 development. So the economists should perhaps think that
6 maybe it really doesn't have that effect because that
7 assumption is that people have such a lack of genius,
8 that once somebody does it, there's no way around it,
9 there's no better way to do it. In fact, if there's a
10 lot of money to be made, people will find another way to
11 do it. People will find improvements. They will do
12 whatever they need to do to get into that marketplace.

13 The other point I want to make is just how
14 flexible the patent system is. Many of the things that
15 were complained of a few years ago are being addressed
16 in current legislation, changes in patent office rules.
17 For example, if you went back ten years ago, examiners
18 had only manual searches available to them.

19 Now, every examiner from their desk can search
20 hundreds of databases for information to help them in an
21 examination process. So, rather than having the examiner
22 with a hand tied behind them in terms of getting prior
23 art, the patent office, on its own, has made facilities
24 available to examiners so that they can examine better.
25 They can get additional pieces of prior art.

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1 Another maybe hopefully thought provoking
2 concept is that even the issuance of invalid patents
3 acts as a way of bringing out hidden prior art. If
4 someone applies for a patent, they will disclose
5 whatever their invention is. Now, there could be in
6 somebody's desk drawer prior art that would invalidate
7 that, but it's in their desk drawer, and it's not out in
8 the public.

9 The issuance of this patent essentially brings
10 that information to the floor. If that patent becomes
11 economically available, people will find it in the desk
12 drawer and will invalidate the patent, but in the
13 meantime, that patent itself has now disclosed
14 information that was previously hidden. So the patent
15 system essentially has this additional good benefit that
16 it can bring.

17 When you come to the issue of overly broad
18 claims, I think you're in the gray area that Jeff was
19 talking about. Your overly broad claims are my too
20 narrow claims. The patentee always thinks his claims
21 ought to be broader, the defendant always thinks they
22 should be narrower. It's an issue.

23 Basically the patent office does not try to
24 grant the broadest patent. They try to grant a narrow
25 patent that's limited to what's been disclosed, as well

1 as what the prior art shows. So the system itself tends
2 to be limited to what can be demonstrated to be the true
3 scope that you should have. They will make mistakes,
4 this is work being done by human beings, but
5 nevertheless, the system is geared toward doing that.

6 Over the years the patent system has made some
7 small changes, some large changes, to accommodate new
8 things. Whenever there's a new kind of technology
9 introduced, there is always a lack of prior art that's
10 easy to find. And new patents that issue after, and the
11 first hundred patents that come in, become the prior art
12 against what everything else is judged against. And so
13 the patent system has a way, on its own, of making
14 subtle corrections to take care of those situations.

15 One final point is, I believe it's for next --
16 on the 30th, your discussion where you talk about the
17 difference between the way the patent office treats DNA
18 code versus computer code. They treat them differently,
19 which shows how complex the system is. The system
20 itself has taken into consideration that these are
21 different kind of technologies, that our knowledge of
22 the effect of a computer code versus the effect of a DNA
23 sequence is taken into consideration in the system.

24 So I think that the 200 years of experience has
25 made this a very finely tuned system, which it itself can

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1 adjust to changing conditions.

2 MS. GREENE: Thank you. Todd.

3 MR. DICKINSON: A couple points. First of all,
4 with regard to the issue of databases generally and the
5 availability of art, this is again a resource issue, but
6 I want to support what several folks have said, the
7 office has invested a rather extraordinary amount of its
8 resources, particularly in recent years, to build up
9 its database collection, particularly in the digitally
10 accessed databases.

11 So the office has access to more data and more
12 prior art than it's ever had before. That could be
13 probably a good thing and a bad thing because the time
14 needed to sift through that is often a big issue, and
15 the complexity of the databases and the searching
16 mechanisms are difficult, but we have also specialized
17 libraries and a lot of very specialized librarians who
18 work in this area. So there is, I think, a healthy
19 ability to make sure that the best prior art that all of
20 us can get access to is there, but there are and need to
21 be other mechanisms.

22 Now, there are several challenges in this. One,
23 there are current proposals to out source -- in the 21st
24 Century Plan -- there are several proposals to out source
25 the searching functions, and they're being robustly

1 reengineer how the process actually worked from the ground up.

2 Eventually the funding for it just dried up, and
3 much of what was developed there was not able to be
4 effectively utilized. One of the things also that we
5 did when I was there was centralize the quality control
6 function, to bring it all together in one place and have
7 one senior sort of quality control czar who reported
8 directly to the Commissioner's office, independent of the
9 examining core.

10 I admire much in the 21st Century Plan. One of
11 the things that troubles me the most though, what appears
12 to be, the core seems to be getting its way again, and the
13 proposal is to decentralize that function. It may
14 have already occurred, and I think that's a bit of a
15 challenge.

16 Two more points, one, the constant pressure
17 though on the office to issue patents is very strong. I
18 had calls from members of Congress to issue particular
19 patents, for example, when I was there, which we resisted
20 very effectively I must add. But there's a very strong
21 case that people make about why their patent and not my patent.
22 About two weeks ago, the patent office issued what will
23 be this year's version of the other patents which Jim was
24 going through, which I think, with all due respect to
25 Professor Gambrell, you really shouldn't let the tail

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1 wag the dog in picking out individual so-called bad
2 patents and then deny, to be honest, the Commissioner the
3 opportunity to deal with those through re-exam. The
4 congress did deny the Commissioner ability to re-exam on
5 grounds other than art grounds.

6 But they issued a patent on the treating of
7 angina I believe or some heart disease by drinking or
8 ingesting lime juice. Now, what was interesting about
9 the debate was not only that that was thought to be an
10 odd patent and kind of off, but there was a robust
11 online debate from biotech practitioners complaining
12 that: how come I can't get my patents issued out of the
13 office where I have to provide a constant and voluminous
14 record of information, in vitro studies, et cetera, and
15 suddenly we can get this lime juice patent out the door?
16 And I think that's an interesting thing to consider as
17 well.

18 Finally, you mentioned a very important issue,
19 which I think we really need to talk about head on, and
20 it won't necessarily make me popular with my colleagues
21 in the bar now, but that's the issue of the obligation
22 of the applicant and their attorneys to disclose art to
23 the office.

24 You touched on this a minute ago, Hillary. We
25 have a rule. It's been in place a number of years.

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1 It's strengthened over vigorous opposition a little bit
2 over the years. It's called Rule 56. It requires that
3 anybody who's involved in the application process,
4 including the inventor and their attorneys or agents,
5 submit the best art or the most material art they're
6 aware of to the office. I don't know if those
7 in the industry or not in the industry can appreciate
8 how that gets parsed, and the significant resistance to
9 that particular rule and any enhancement of that rule.

10 I'll give you a good example. The 21st Century
11 Strategic Plan when it was announced, provided for
12 something what was called euphemistically the Mandatory
13 IDs. It basically dealt with the issue you mentioned a
14 minute ago of requiring searching and then requiring a
15 disclosure of those search results.

16 I'm here to tell you today that that rule is
17 dead on arrival, any enhancement of that rule. The bar
18 has successfully beaten that back. They beat it back
19 when I conducted a hearing on the same issue, and I
20 think we have to deal with some of the reality of that.

21 I'm not going to say the bar is doing it just
22 for the bar's sake. I think one of the real challenges
23 the bar has in this regard is the concern about the
24 impact on their practice, the very tangible, pragmatic
25 concern about the malpractice issues that they will

1 draft.

2 They will submit art, describe what that art is
3 about today, and then in a decade from now, they'll be
4 called to account for that in ways that will have real
5 significant impact on their practice and their
6 livelihood. So I think that one other thing that should
7 be looked at is whether we can try to lay off some of
8 that exposure and incent greater disclosure by the
9 applicant and their attorneys to the office.

10 MS. GREENE: Thank you. Bob?

11 MR. TAYLOR: I had a couple of reactions to the
12 discussion about patent quality that I think are
13 important, and it actually is a follow on thought from
14 one that Nancy Linck put out when we first started this
15 session.

16 There's a cost associated with achieving patent
17 quality in the patent office. I think everyone would
18 like to sit in the office and make the best possible use
19 of the resources that it has to develop prior art, to
20 probe the applicant with respect to those enablement issues
21 that are often uniquely within the possession of the applicant.

22 I agree with the observation that where the
23 patent office has the most relevant prior art, they do a
24 pretty good job with analyzing claims and limiting the claims
25 to a proper scope, but because the vast number, the vast

1 majority of patents really don't have a great deal of
2 economic significance, we can lose sight of or we can
3 certainly get very distorted in our allocation of
4 resources if we go after patent quality at the patent
5 office too vigorously.

6 We have a market-based system. Because it's a
7 market-based system, the value of a patent that gets
8 into litigation or even patents that get into licensing
9 negotiations will precipitate a market driven quality
10 analysis. The amount of money, for example, that I, in
11 representing a defendant, will spend in trying to
12 develop prior art, is directly related to the damages and
13 the economic importance to my client. And so the market
14 mechanisms themselves right now are in place to achieve
15 quality at a level commensurate with value, and I think
16 that's the way the system should work.

17 I think any other effort to pour more resources
representingqueshe vably.

1 what's already done.

2 In my experience many, if not most, patent
3 applicants do a search right now, and they do it because
4 the implications of Rule 56, as it's administered in the
5 courts, essentially requires it. When a patent lawyer
6 writes a patent application, he or she has to inquire of
7 the applicant, of the inventor, what prior art they have,
8 what other information that might be germane to the
9 patent or the application in the patent office because
10 they're required to make that available and because they
11 know that if they don't press the inventor for that
12 information and the patent gets into litigation and the
13 information comes out in discovery, it's going to create
14 an inference at least, if not a relatively hard set of
15 facts, on which the patent will be made unenforceable
16 for inequitable conduct.

17 So there is already in place a great deal of
18 searching that goes on by patent applicants for the
19 information that the patent office needs.

20 Now, it is in fact, it's a limited search, but
21 if you start trying to expand the concept of that search
22 beyond the inventor and the patent lawyer and the other
23 people in a company involved in the patenting process, I
24 think you will just generate an enormous amount of
25 uncertainty that will add to the cost of litigation, and

1 I don't think will further the disclosure of prior art.

2 MR. COHEN: Just to clarify the point, in a
3 large research establishment, does this requirement to
4 ask the inventor go beyond the inventor himself to
5 everybody working for the firm, or is it just limited?

6 MR. TAYLOR: No, it's normally limited to the
7 inventor.

8 MR. COHEN: Okay.

9 MR. TAYLOR: That's exactly the point that I'm
10 making. If you expand it beyond the inventor, it
11 becomes very difficult to define in any useful way for
12 the courts or anyone else to inquire into whether that
13 obligation is met. In companies, the discovery process
14 in litigation reaches out to thousands of people within
15 an organization.

16 MS. GREENE: Nancy?

17 DR. LINCK: Applicants want valid patents.
18 There may be exceptions, but for the most part
19 applicants want a valid patent, and the way you get a
20 valid patent is to have the office review the most
21 relevant prior art. The inventor oftentimes will have
22 the best command of the prior art, but we're a small
23 company. We always search beforehand. You have to
24 search to draft a good patent application.

25 I think Rule 56 gets in the way frankly. I

1 don't think it helps because we would be happy to do a
2 search. We would be happy to describe, to the best of
3 our ability, how those references relate to the claims.

4 The fear is Rule 56. Rule 56 also ends up
5 having applicants dump huge piles of prior art on the
6 office because they're scarred of Rule 56, not because
7 they think all those references are relevant to the
8 claims. Rule 56 has worked havoc on our system. I
9 believe we're the only country in the world that has a
10 Rule 56. We ought to get rid of it.

11 It also ups the cost of litigation. If you're
12 worried about this differential that drives people to
13 license, rather than litigate against a patent, get rid
14 of Rule 56. Jeff talked about the file wrappers,
15 prosecution histories. Frankly, I think we should get
16 rid of the prosecution histories.

17 It runs up the cost of litigation. It's an
18 unfair system because examiners vary in what they
19 record. The entire prosecution history is not
20 recorded. Applicants go in, they have interviews, the
21 interviews are not recorded.

22 Just take the patent like a contract, and
23 determine what a patent means and what property the
24 patent covers. That will cut down the cost of
25 litigation. Our system really is one that greatly

1 increases the litigation burden, but I would strongly
2 recommend that we get rid of Rule 56.

3 It was, I believe, put in place to catch the few,
4 I think very few, applicants that know about a reference
5 and purposely withhold the reference from the office so
6 that they can get their claims allowed.

7 I don't know what they do with them. I guess
8 then they go around and threaten people with their
9 invalid patents, but that's not 99 percent or more,
10 probably more, of your patent applicants. So why have we
11 burdened our system the way we have?

12 MS. GREENE: Great. Jay, and what I think I'll
13 do is try to run through everybody who currently have
14 their table tent up, see if my colleagues have any
15 further questions, and then we'll take a very fast break
16 and then come back. Jay?

17 MR. KESAN: I want to make three points related
18 to the comments that just preceded. First, when you're
19 thinking about how the market responds to a patent --

20 MR. DICKINSON: You need a mic, Jay.

21 MR. KESAN: -- and you're looking at market
22 based solutions and so on, there are two things that are
23 important. One is there are legitimate wealth transfers
24 that are contemplated by the patent system, and there
25 are wealth transfers that are not contemplated by

1 the patent system. In other words, if you have a valid
2 patent, then certainly you should be able to license it,
3 enforce it and so on. But if you don't have a valid
4 patent, but you happen to take advantage of cost
5 differentials in the system to say, well, it's okay,
6 I'll get a cheap license, that is not a wealth transfer
7 that's contemplated by the patent system, and that's
8 opportunistic licensing.

9 Similarly, we're talking about when we have
10 a patent which then becomes the basis for supra-competitive
11 pricing, which shouldn't be the case, then again we have
12 economic consequences. That should be a market for pens or
13 pencils. That should not be a market where you have
14 supra-competitive opportunities.

1 in consumer surplus when you have patented innovation,
2 and you offset that against dead weight losses, which is
3 the loss due to the supra-competitive price.

4 In other words, if something should have
5 actually cost \$5, because of a patent it's going to cost
6 \$10, that means the people that could pay 6, 7, 8 and 9
7 are not going to get that product, and that's fine. We
8 understand that. We say, well, that is the cost of the
9 system and then we've got R&D costs and we've got costs for
10 designing around, and that could be both a plus and a
11 minus, and so we understand that every time there is a
12 patent, you have this sort of trade-off.

13 However, when you have a bad patent, then you
14 have an entirely different situation where if something
15 that should not have been granted was granted, you don't
16 have those positive benefits, and you're only left with
17 a lot of the negative things. And I think that is one of
18 the key issues here.

19 I completely agree that market-based solutions
20 are very sensible, except that we should be careful
21 about informational asymmetries, and we should be
22 careful about transaction costs.

23 The second point I wanted to make was with
24 respect to the prior art. I think -- something that
25 now sort of at least there is a very good agreement on,

1 and that is, when you have well established
2 traditional technologies, the patent office does a very
3 good job. We don't hear of crazy automobile patents or
4 we don't hear about crazy compressor patents. These are
5 well established technologies where there's a lot of
6 patented prior art.

7 The real question really is in emerging
8 technologies where there is a lot of non patent prior
9 art, but here I want to add one other point, and that is
10 that the structure of a lot of these emerging industries
11 are such that, just because you have made patent
12 protection available to them, does not mean they're
13 going to seek patent protection.

14 In other words, for any foreseeable future, I
15 don't see the software industry -- which, understand I'm
16 very familiar with from my technical background -- I
17 don't see a huge clamor in the software industry to go
18 and get patents because they get appropriate returns
19 from innovation by doing other things, like they depend
20 on externalities, they complementary bundle sales and
21 services, they do, basically, innovate in a downstream
22 fashion with multiple versions of the same technology,
23 and there's a lot of prior art in software handbooks.
24 They know that we can put it all out there.

25 It doesn't mean that I am not going to be able

1 to reduce competition and create barriers to entry. I
2 don't need a patent for that. There are other ways that
3 I can do it. So there's a lot of non patent prior art
4 out there. And so saying that it's going to be really
5 easy to -- now that we've sort of opened the doors for
6 software patents automatically -- the prior art is going
7 to get in there, I'm not so sure.

8 The third point I want to make is there is a
9 real difference between information and knowledge. To
10 put it facetiously, as I often tell my graduate research
11 assistants, there's a difference between hitting the
12 print button and thinking you've done research and
13 between actually reading what is in there. And I think
14 that's one of the real problems with a lot of prior art
15 that is dumped on the patent office.

16 It means you have a whole bunch of references
17 that are thrown over the fence. It doesn't mean that
18 you've actually met the issue, which is, how exactly is
19 this related to the claims at issue. If, for example,
20 in the world of software, we have different
21 terminologies used by different people for the same
22 thing, they're talking about the same thing. But, if you
23 simply look at a piece of prior art, you won't know that
24 necessarily. People in the know and people who are
25 actually developing that kind of software know that.

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1 were something like close to 90 percent. In other
2 words, disclosed prior art is never relied on by the
3 courts.

4 So to me, that is the critical question, and so
5 if we're going to have that kind of deference, if we're
6 going to have that kind of treatment to a bunch of

2

1 MS. GREENE: We're going to be getting into
2 presumptions and that type of thing later on. Let me
3 turn to Scott.

4 MR. CHAMBERS: I would like to address first
5 this disclosure aspect, and the idea that we would force
6 someone to do a search themselves, means that you're
7 going to be actually hurting larger industries or larger
8 companies more than you're hurting the small inventor.

9 You're going to have to have situations where
10 you would have the ability in litigation then, to
11 discover at all points in IBM -- if the suit was against
12 IBM -- throughout that particular company. That creates a
13 tremendous burden if you're going to have the company
14 have to come forward and to do the search.

15 I think that there was a time in the PTO when
16 you had to give a rough synopsis of what the reference
17 was, and they got rid of that, and they got rid of it
18 for a very good reason. It is just too expensive to
19 have a patent attorney go through these things and, one,
20 understand what they mean, and also make sure he has
21 characterized it properly.

As Jay said, it's fine to have some. GREEopartiWcharacterize

1 when I have hired an expert, who has quite a bit of
2 experience, to go through that reference and find out
3 how this was a mischaracterization? Those are two
4 different things.

5 I can find an expert that can show why what you
6 said was an incredible mischaracterization, and you have
7 just pulled the wool over the eyes of the examiner, and
8 that's a problem.

9 In terms of Rule 56, while it is true that the
10 United States is the only country that seems to have a
11 rule like this at this time, it's also true that we're
12 the only country that does ex parte prosecution and
13 doesn't have a real opposition system. So that you can
14 have situations where people step up and they say
15 whatever they want because it's just you and the
16 examiner, and then later on the examiner, who may not be
17 legally trained, in fact, it would be highly unusual to
18 find that he was legally trained, and may not be
19 currently up to date with the technology, he could
20 easily be fooled by this.

21 That brings me to the third point, which is the
22 prosecution history. And while I've heard people talk
23 about getting rid of prosecution history, I certainly
24 don't agree with that. There are a number of reasons.
25 The first is the prosecution history freezes in time

1 what the people were talking about perhaps
2 inefficiently, but it does give an idea about what was
3 said.

4 If you didn't have that frozen snapshot, you
5 might find, in an ex parte prosecution, that the
6 attorney was cutting it a little too close, maybe saying
7 something that was slightly misleading, and there is no
8 way to show that that was done if you're not going to
9 look at the prosecution history.

10 In addition, keeping the prosecution history as
11 a valuable commodity, and saving it and referring to it,
12 forces the attorney to take more time at looking at
13 certain things. An attorney is not going to step
14 forward and say, well, this reference means X, Y and Z
15 when he hasn't read it. He'll actually get into it and
16 try to understand it. Why should he bother wasting the
17 client's money if it's not going to actually be on the
18 record?

19 And the final thing is that in those countries where
20 the prosecution history is not a major part of interpreting
21 the scope of the claim, they also have opposition systems.
22 So that, gee, I don't know what this term means, I
23 wonder if the examiner said anything about it. We can
24 go to the prosecution history. In an opposition system
25 you can say, well, let's see what another company did to

1 that, and if no other company's had a problem with it,
2 well, it gets put out.

3 While Nancy Linck was Solicitor at the patent

1 MS. GREENE: Jim?

2 MR. GAMBRELL: I think this speaks well for
3 eliminating the recording of this operation today. It
4 seems to me two or three things I would like to say. In
5 the first place, if an attorney has a number of
6 references and he doesn't have time to analyze them and
7 tell the patent office what he thinks their main point
8 is, how in the world do we believe that a patent
9 examiner is going to do so when he's limited to about 16
10 hours, on an average, for every patent application?

11 Nobody should put the burden on the patent
12 office totally if, in fact, it's there. I think that
13 any time you submit prior art, and I routinely recommend
14 doing it, that you ought to indicate what are the most
15 relevant references. I've seen re-examinations where
16 there are three and four pages of references cited,
17 including memorandas involved in the litigation.

18 There's no way in the world that an examiner
19 sitting on a re-examination is going to go through 275
20 references which are on very arcane subjects and be able
21 to testify with a straight face that he knows that X, Y,
22 Zs were not relevant. It's a joke, and indeed, if he has to
23 tell the patent office examiner which ones are most relevant
24 and what they generally show, it would be exceedingly
25 helpful to the patent examiner, I should think, and it

1 seems to me it ought to be required.

2 Now, one of the comments that has been made is
3 that there are a huge numbers of patents that have no
4 economic value. We know they issue, and nobody really
5 takes them seriously. That seems like an awful good
6 argument for having a registration system, in part, so
7 that all of those patents can be diverted to automatic
8 registration after they apparently have passed the tests
9 in the patent office of the disclosure and the fee and
10 the drawings and so forth. And then we could devote the
11 attention of the patent examiners to those people who
12 have inventions that they think are more than just
13 routine ego satisfaction processes and products.

14 So I would suggest that maybe that's one way to
15 improve the quality or to give the examiner more time to
16 deal with important patents and inventions, and less time
17 to spend on the junk stuff that comes through. That may
18 help them on their disposal rates, but it doesn't
19 necessarily help the public anywhere else.

20 I would like to spend a minute to talk about
21 Rule 56. I happen to be a person who thinks that when
22 it was revised, it wasn't strengthened. In fact, the
23 bar went to great lengths to try to put an objective "but
24 for" test on the theory that nobody would intentionally
25 mislead an examiner as to what the art was or what was

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1 it.

2 MS. GREENE: Right.

3 MR. GAMBRELL: I think that it is important that
4 we keep the rule, and indeed and in fact I think we
5 ought to strengthen it.

6 MS. GREENE: Thank you. Mel.

7 MR. GARNER: I also agree that Rule 56 should
8 stay in place or at least something of that type which
9 requires an applicant to disclose relevant information
10 to the patent office. I mean, there's no reason not to
11 have a rule like that.

12 Some of the difficulties come from the judicial
13 interpretations of that and the way it can be
14 manipulated in litigation, and that maybe there ought to
15 be some rules that would guard against that. But the
16 information that's disclosed by the applicant, I don't
17 believe, should include a requirement that the applicant
18 describe the relevance of the reference.

19 Number one, there is this huge danger that you'll
20 make a mistake in the characterization of the reference,
21 and as a result, it will be invalidated or held
22 unenforceable for that reason.

23 The second thing is that you've heard statements
24 that there are hundreds of references thrown over the
25 fence. That is extremely rare. In the garden variety

1 case, you don't get hundreds of references, you get
2 five to ten references, and there's no reason why the
3 examiner can't look at those five to ten references and
4 make a decision as to whether they relate to the
5 information that's in the patent application.

6 If you require a comment on it by the applicant,
7 somebody's going to have to pay for that. The attorney
8 is not going to do it for free. Nancy's in-house
9 counsel won't do it for free. Somebody has to sit down
10 and write something about each and every one of these
11 things, and that's a cost, a cost that has to be
12 duplicated by the examiner because the examiner's under
13 an obligation to make their own independent judgment.
14 So why would you double the cost in order to have
15 somebody look at a reasonable number of references?

16 The other point I want to make is that, with
17 respect to prosecution history, the one place that you
18 really never know what's going on is when there's a
19 personal interview with the examiner. That one little
20 sheet does not make up for an hour and a half discussion
21 that you had with the examiner, and that's where most of
22 the confusion is because the case is rejected, there's
23 an interview, it's allowed, and you don't know what
24 happened.

25 One of the things that is a possible thought is

1 that you could require examiners to give reasons for
2 allowance, that they can put in the final allowance
3 document a sentence or two saying, what is it that
4 convinced them to allow this case, and then you would
5 have something to shoot at.

6 The concept of registration, I think, is also
7 totally off based. No one files a patent application
8 assuming it's going to not have economic value. The
9 only reason you file it is because you think it's going
10 to happen, but it's a bet on the future, and many of
11 those bets, probably the vast majority of those bets
12 prove useless.

13 When you go to a patent office, the reason you
14 want a patent is because you think it's going to have
15 economic value, and the only way you find out is that
16 when you get in the marketplace you find out it doesn't.
17 So I think our registration process is just not the way
18 to go.

19 Finally, there was comment about a post-grant
20 opposition. I think that the U.S. is moving very close
21 to that situation now.

22 MS. GREENE: We're going to be getting to that.

23 MR. GARNER: So I think that's sort of an
24 example of the fact that within the patent community,
25 when difficulties are recognized, efforts are made to

1 make corrections that will take care of that.

2 One final comment, and maybe it's provocative,
3 is that actually bad patents do serve some good
4 purpose. As long as that bad patent doesn't have
5 economic influence, it acts as a way of putting
6 knowledge in a well-categorized database of information.

7 So as long as it's not stopping somebody from
8 doing something, you've actually taken information that
9 was maybe hidden somewhere and put it in a place where
10 people can find it, and that bad patent can be used as
11 prior art against a later attempt to get a patent.

12 MS. GREENE: Quickly to Jeff, and then after
13 Jeff comments on this whole round of discussion, we'll

MS. GREENE. KUSHAN

1 We should also keep in mind that what the courts
2 think inequitable conduct is, isn't limited to Rule 56.
3 So you may change the rule, and you may still get your
4 patent held unenforceable because the court is going to
5 look at your behavior with some, but not total deference
6 to what the PTO says the standard should be. So it's not

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1 not in a specific manner but in a general manner, give
2 the patent office everything you have, versus having an
3 examiner say, what does this mean? I mean, the
4 examiner's statement to an applicant is a very powerful
5 tool because the response to the examiner is very
6 specific to the facts that are laid on the table, and
7 that is a very powerful tool for inducing commentary
8 back from the applicant, much more so than this blanket
9 statement saying, show me what you think is relevant. So
10 kind of distilling this down into, how do you bridge the gap?
11 Or how do you shrink the time for the examiner to get to
12 the right issues?

13 One of the things that I've been trying to think
14 through is, if you were to invest a little bit of time
15 before substantive examination begins where perhaps a
16 more senior examiner essentially frames issues and
17 induces some kind of specific disclosure from the
18 applicant; you send in 75 references, could you tell me
19 the page number of those references that I should pay
20 attention to, you know? That doesn't require self shooting
21 in the head type of action by the applicant to point to one
22 versus the other. It's responsive to a demand, and that's
23 going to give you have a very accurate -- you'll spend a
24 little time to make sure you send it in. You don't make
25 the applicant describe why, but just point to where I

1 should look. That's an efficiency step which may be
2 good.

3 It also is unfair to expect that applicants file
4 stuff voluntarily. I mean, you're in a quandary as an
5 applicant. You want to put everything in
6 comprehensively, and you know that every time you try to be
7 helpful on your own, it's going to be punished because
8 it's going to be twisted into a different story.

9 So maybe the answer is to get some kind of
10 staged examination where there's a preliminary
11 interview, preliminary communication, which frames the
12 issue that really needs to be focused on early in the
13 process. That may yield a lot of benefits downstream.

14 You have to look at the big picture and say, can
15 we afford to invest that initial step? And I certainly
16 want to conclude with one very brief comment. We're
17 having this wonderful question assuming every single
18 patent application is the same. We're talking about
19 apples and oranges all over the place here.

20 There are some really complicated cases. Maybe
21 you take some specialized procedures for those
22 complicated cases. An examiner that Scott and I and
23 Nancy have all seen before is the examiner that knows
24 every single patent in his art, and he gets a claim, and
25 in ten minutes he'll know whether that's novel and

1 nonobvious. You don't need to have anything but that
2 examiner get the case and examine it.

3 You don't need to apply these elaborate
4 procedures to every single case. So we need to really
5 have the gradations and a little bit more granularity
6 put into our system, but some of the stuff should be
7 appreciated on those tensions that you just can't
8 reconcile.

9 MS. GREENE: I assume, Todd, you're saying
10 short --

11 MR. DICKINSON: One area for study, maybe
12 additional study, that you may wish to consider is the
13 effect of some new rules that get right to the point
14 Jeff was talking about, two in particular.

15 One is the new Rule 99, which says that -- this
16 is in the post-publication era. We publish patent
17 applications at 18 months, at least the vast majority of
18 them now -- the opportunity exists for prior art to be
19 submitted to the office by third parties.

20 We're not talking about the applicants and their
21 attorneys, we're talking about third-parties. My
22 understanding is that that rule is not being used much
23 at all, which is very interesting, given the fact that it
24 was very strongly opposed, and there's actually a
25 provision of the statute that says no opposition while

1 the case is pending. But it provides a mechanism for
2 sending art in. So studying why that may or may not be
3 being used I think is good.

4 We also put a rule in, over the very strong
5 objection of the bar, that allows just for what Jeff was
6 mentioning, namely, that the examiner now has the
7 opportunity, an increased opportunity, to turn the
8 question around on the applicant and inquire of the
9 applicant why they did something, is there more art that
they're aware of, to make a better of the art

1 chomping to get at these issues.

2 In terms of background, many of the panelists
3 testified that delaying the resolution of patent
4 validity issues until resolution of court litigation
5 impedes competition, and several of them urge that third
6 parties want to see an expanded opportunity to seek
7 re-examination/post-grant review patents issued.

8 Would a greater availability of either of these
9 offer an earlier resolution of the patent validity
10 issues? And if so, how would the competition be
11 affected? Nancy? Nancy, it was a race to see which one
12 got their table tent up first.

13 DR. LINCK: Actually I have a very short answer
14 to your question, but I thought I would kick it off
15 since it's a topic near and dear to my heart.

16 MS. GREENE: Oh, absolutely.

17 DR. LINCK: Of course the question was, greater
18 availability of re-examination or post-grant review
19 offered. Obviously, that's the whole purpose of a
20 post-grant opposition or re-examination, to be able to
21 resolve validity issues.

22 I tend to favor the re-examination because I
23 think the most significant issues with respect to
24 validity and the ones that the PTO handles best are
25 those relating to prior art. Your second question, you

1 had a second question, didn't you, Hillary?

2 MS. GREENE: How is competition going to be
3 affected?

4 DR. LINCK: Well, we've been talking about the
5 impact of bad patents on competition, thus the ability
6 to eliminate bad patents earlier is going to have a
7 positive effect on competition. Competitors will, if we
8 have a meaningful re-examination or post-grant
9 opposition, have the ability to challenge patents and
10 move into that field and commercialize competing
11 products.

12 MS. GREENE: Right. My question also applies
13 more broadly in the sense of, there are lots of proposals
14 out on the table as to how these changes could be made
15 specifically. So I'm curious about whether there's sort
16 of a differential effect between them in terms of the
17 affect they would have on competition? And also, one of
18 the points that's come up from time to time, are
19 questions of how the system could in some way be gamed
20 or used to undermine competition?

21 So you're welcome to either address those right
22 now, or address them as we discuss various specific
23 reform proposals.

24 DR. LINCK: However you prefer. I will address
25 the gaming issue. One of the concerns why re-examination

1 was limited in the first place and why the legislation
2 that was introduced in the early 1990s passed with
3 severe limitation, most of which have now been fixed,
4 was because of the concern that competitors would
5 challenge valid patents and harass the patentee through
6 a long re-examination procedure.

7 There had been oppositions -- what was the
8 system that was in place?

9 MR. KUSHAN: Dan Amendments back in the 70s.

10 DR. LINCK: Thanks, Jeff, where the system --

11 MS. GREENE: I didn't hear that.

12 DR. LINCK: The Dan Amendments which provided a
13 reissue, an interpartes reissue system, and that was
14 abused, and therefore those that were familiar with the
15 abuse of the reissue system were concerned that the
16 re-examination system, to the extent it was interpartes,
17 would also be abused.

18 I think then after eight or so years, it was
19 determined that, in fact, the system was not being abused
20 and had been too limited initially, and that's why the
21 legislation was introduced in the early 1990s, to give
22 third parties a better opportunity to participate.

23 Some say re-examination doesn't go far enough,
24 and that may be the case. I think I've been
25 characterized as an opponent to an opposition system,

1 and I'm really not an opponent. I would just like to
2 see a meaningful interpartes re-exam be given a fair
3 try.

4 And now that we have the right to appeal to the
5 Federal Circuit and now that Portola Packaging, which was a
6 nightmare for the system, has been legislatively
7 overruled. If we can fix the last piece, and that is the
8 estoppel provision that's in the present legislation,
9 where the minute that you file a re-examination you are
10 estopped later on from raising any issue you either
11 raised or could have raised. As the legislation was
12 first envisioned, estoppel would have kicked in at the
13 time that the third-party appealed to the Federal
14 Circuit.

15 The group that worked on that felt it was fair,
16 once a party had entered the Federal Court system, to be
17 estopped, but prior to that time, as long as it was an
18 administrative procedure, we didn't believe that
19 estoppel should kick in. So at least that piece needs to
20 be fixed.

21 Then we need to give that system a chance to
work. My company certainly will use it, probably will

1 The opposition system as proposed serves very
2 different purposes. For one thing, it would be limited
3 to 12 months after a patent issues. Oftentimes you
4 aren't even aware that a patent is a problem until much
5 longer after the patent issues. So you need to keep the
6 re-examination system as well.

7 In fact, I'm very concerned that the PTO has
8 proposed getting rid of a re-examination system, that we
9 fought for ten years to put in place, when it serves a
10 very different purpose.

11 I'm also a little concerned about how well the
12 PTO is equipped to handle an opposition system that
13 would address many issues that the PTO, except for a
14 very small group of administrative patent judges, don't
15 deal with very well, that require the taking of
16 testimony, depositions. It also would be very
17 burdensome on the office, and I'm not sure how much
18 return you get just by adding issues such as 112 issues,
19 best mode issues.

20 I don't believe they're proposing Rule 56, but
21 certainly I'm open minded to adding that kind of system,
22 if we feel we still need it after giving re-examination a
23 try. I frankly don't think it will be in place any time
24 soon.

25 Thank you.

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1 MS. GREENE: Thank you. Jay?

2 MR. KESAN: I think the whole discussion of
3 re-examines and opposition does tie into the fundamental
4 issue which is how you get access to the prior art.
5 We admit the limitations of a system where we simply
6 rely just on the examiner and his ability to read the
7 prior art. We admit that that simply doesn't work.
8 That's why we've gone down the path of first trying to
9 get prior art from the patentee.

10 We've got these disclosure rules. We've got all
11 these other rules because we admit that there is an
12 information asymmetry. The patentee does know more than

1 at the 21st Century Plan Strategic Plan, it actually
2 reduces examination burdens by actually delaying
3 examination, by reducing the number of examiners that
4 are going to added on. There's a whole bunch of other
5 things that are being proposed there, which actually
6 makes it even more important that we bring third-parties
7 into the picture or parties who are interested in or who
8 are materially affected by the grant of a patent.

9 We really want to bring them into the action
10 early on in the process. Even if they end up getting a
11 license for the patent, they ought to be empowered to
12 challenge certain claims. They ought to have a real tool
13 where they can say, listen, maybe not everything about
14 this patent is valid and we want to be able to
15 effectively challenge whole or parts or all the claims.

16 I completely agree with what Dr. Linck said,
17 which is the estoppel provision is the reason why the
18 re-exam is just totally useless, and I think that what
19 we've seen so far proves that, and the empirical data
20 that I've got from talking to Mr. Kunin in the patent office
21 certainly suggests that what we have is basically
22 nonworking re-exam policy.

23 I do think that the time limitations that exist
24 in oppositions can be problematic. I mean, having any
25 kind of one-year or two-year limit can be problematic.

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1 There are a couple of other things that are problematic.
2 The second thing is that there should be some sort of
3 isolation between the initial grant decision and between
4 the people who are decision makers further down.

5 We recognize that there are serious issues often
6 referred to by behavioral economists as cognitive dissonance,
7 which is once you're committed to a particular outcome, then
8 you're going to want to justify the same outcome over
9 and over again. So you really need to have certain kinds
10 of barriers put in so that the person who was reviewing
11 it, whether it's an administrative opposition judge or
12 some other kind of judge, is not in any way committed to
13 the previous decision.

14 The third point related to oppositions and
15 re-exams is that if we decide to follow what other
16 countries are doing or at least rely on what other
17 countries are doing in oppositions, we have to be really
18 careful because I am uncomfortable with the current
19 status of European oppositions where there's very little
20 opportunity for judicial review of a lot of these
21 oppositions.

22 The appeal board is a very limited thing, as
23 everyone who sort of has done this knows, if you
24 participated in, and there's very little judicial review
25 of EPO oppositions. And I think I would like us to

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1 Also, with all due respect to my friends in that
2 community, there are among them those who would like to
3 be able to have that piece of paper in their hand and
4 say to that big company, you want to prove this is
5 invalid, fine, spend \$5 million and sue me. I don't
6 want to have the ability for that big company, or my
7 small competitor, to go into the office and spend \$50,000
8 on their party's re-exam. They would like a higher
9 barrier to entry, and that is perhaps a natural thing. But,
10 that doesn't mean it's a good thing. And I think the
11 opportunity for, again, improving the re-exam/opposition
12 system is very important to encouraging the quality of
13 patents and important to encouraging competition.

14 Again another thing about re-exam that's
15 important to remember, some folks think the re-exam
16 system is the mechanism by which we can overturn bad
17 patents. The statistics, I think I've got them right,
18 on only a very small minority of re-exams are all claims
19 cancelled. I think it's something in the order of 10
20 percent.

21 Mostly what the re-exam system provides for is
22 the ability to refine and narrow issued patents down,
23 which is probably something that needs to be
24 acknowledged.

25 There are also some other options that should

1 perhaps be considered. One judge on the CAFC, Judge
2 Newman, has proposed that, as a counterweight to
3 litigation, we move to something similar to the Japanese
4 system where, if validity is an issue, and in almost
5 every case validity and infringement are issues, but the
6 validity piece of that litigation should come back to

1 re-exam, director to order re-exam because they can order
2 them too, to be able to do it on 112 grounds, to clean
3 up the stick patent and this patent or that patent are
4 embarrassing frankly.

5 One particular congressman, very nice guy, said,
6 no way are we going to do that. So there's a political
7 will that runs against that kind of thing.

8 One other solution which is often proposed is
9 perhaps having the presumption of validity not kick in
10 until some year in the future, similar to the trademark
11 system where it doesn't become incontestable until after
12 five years, that you might start with no presumption and
13 then put in a presumption over time.

14 Just some comments.

15 MS. GREENE: Jonathan?

1 the last year, and one of the things that has come out of
2 that research was that to capture significant economic
3 welfare gains from an opposition system, it's really
4 important to keep the costs low. And it's quite intuitive
5 why that would be the case because, first of all, if the
6 costs are high, people won't use them, and if the costs

1 with this, some of the specific proposals, in particular
2 things like: what are the grounds for opposition? Is it
3 anything relating to validity, or just some of the validity
4 issue, things you can challenge validity on? How many
5 hearings should you have? Should there be appeals? How
6 much discovery should there be? And all these things seem
7 to come down to this trade off between, do we want a very
8 thorough process or do we want one that's really expedited
9 and quite cheap?

10 The last thing, just to follow-up on Nancy and
11 Jay's point about putting a limit on the length of time,
12 and I'll just mention one reason why it might make sense
13 to have a limited length of time, although I'm not sure
14 that I think this is a compelling reason to limit the
15 length of time, which is that if you do have a deadline,
16 although some firms might miss the deadline to file an
17 opposition and then sort of miss their window of

opportunities by compellingly deadlines makes sense for it and on nois affi? ue, n i tly 6

1 one potential argument in favor of a time limit on an
2 opposition system.

3 MS. GREENE: Steve?

MR. MERRILL: Well, first of all, a point of

1 the costs mount and the savings, in terms of early
2 resolution, is not achieved.

3 I'm not sure we can't solve that problem in
4 designing an American system.

5 I would like, however, to take Hillary's point
6 early in the day and say that we can ask each other
7 questions because I would like to press Nancy, and
8 perhaps others, a little bit on their preference for
9 enhanced re-examination versus opposition.

10 I can understand a political argument, political
11 feasibility argument. I can understand a practical
12 argument of absorbing and testing modifications before
13 jumping to a more ambitious system, but I have a little
14 trouble understanding the arguments on the merits, and
15 particularly the argument that most of the problem with
16 patents is in the prior art, and the suggestion that the
17 PTO is most capable of dealing with prior art questions
18 rather than other elements of examination.

19 And the third question I would like to press her
20 on is whether it's unthinkable to have an open-ended, in
21 terms of time limit, opposition system?

22 DR. LINCK: That was a lot of questions. Let's
23 see what I can do. You may have to prompt me from time
24 to time.

25 I think you asked first about enhanced re-exam

1 versus opposition, and I don't have strong feelings one
2 way or the other. I want to see a procedure that's
3 going to be valuable soon. That troubles me about the
4 opposition. We first introduced re-examination
5 legislation more than ten years ago, and we don't have
6 all of the pieces yet.

7 I want to see a system that's quite inexpensive
8 and is fast. And I didn't mean to say the office doesn't
9 handle other issues, they do handle 112 issues quite
10 well. However, I'm concerned that issues like 112,
11 issues like best mode, Rule 56 -- what are the others
12 they're looking at? -- those typically are not issues that
13 patents are held invalid over. There are the rare cases
14 where that happens, but it's primarily prior art, obviousness
15 and novelty are the main issues.

16 For my purposes, I wouldn't care if you added
17 112 issues to re-examination. I would hate to see it go
18 any further because the more issues you put in, the less
19 likely you're going to get the procedure taken care of
20 in a fast or timely, economically -- what's the word
21 I'm looking for, help -- feasible, thank you, time
22 span.

23 I don't see any problem with having both the
24 re-examination system that we will have if we can get rid
25 of the estoppel piece, and also have an opposition system

1 that is limited in time. I don't see a problem with
2 permitting an open-ended challenge based on prior art.

3 There's a lot of resistance to an opposition
4 system that would be permitted indefinitely. I think I
5 would be very surprised to see that kind of a system be
6 put into place. I would be surprised to see an
7 opposition system be put into place very quickly. So
8 it's not really opposition to an opposition system.

9 I don't think I've gotten all of your questions.

10 MR. MERRILL: No. On the length of time issue,
11 I understand it's not likely, but is it objectionable on
12 the merits to think of an opposition system that's
13 open-ended for the life of the patent?

14 MR. KUSHAN: I'm chomping at the bit.

15 DR. LINCK: Jeff is anxious to answer that
16 question, so why don't we let him answer that. I am
17 concerned a little bit about the burden on the office of
18 an opposition system. While I know that the interference
19 ALJs feel they can turn the interference group into a
20 post-grant opposition group, we spend a lot of money on
21 interferences right now.

22 It's a very small piece of the action over in
23 the Patent and Trademark Office, and do we want to shift
24 that heavy burden on the system to oppositions? Now,
25 perhaps we can make it pay for itself through fees

1 imposed on third parties, but again, if it gets too
2 expensive, then third parties are going to want to go
3 into court. So I think you have to balance those costs.

4 MR. DICKINSON: Interpartes re-exam right now,
5 with bills and statute that put it into place required that
6 the fees be set to equate to the costs, and that's why
7 you have an 8,000 dollar initial filing fee for a
8 third-party interpartes re-exam. I think you're exactly
9 right about that. I think you have to watch that cost.

10 DR. LINCK: That may deter people from using
11 it.

12 MR. DICKINSON: I think that's what they
13 contemplated when they put that provision in the bill.

14 DR. LINCK: Before I turn it over to Jeff, let
15 me make one comment on a statistic that was raised, and
16 I've heard it raised over and over again at these
17 meetings, and that is how little the interpartes
18 re-examination system has been used, and I do think
19 there's problems with it, a lot less today than there
20 was initially, but you've got to bear in mind that the
21 only patents that could be put into interpartes
22 re-examination were patents that were filed after
23 November 1999.

24 If it takes three years to examine the
25 application in the first place, they would not have even

1 issued until 2002, so all of the re-exams would have had
2 to have been roughly after 2002. So it's not surprising
3 that we see a very small number, and I think that
4 statistic has been relied on heavily.

5 MR. DICKINSON: Budgeted for 150 per year.

6 DR. LINCK: Starting in?

7 MR. DICKINSON: Full speed when we get five
8 years out, three years out.

9 MS. GREENE: Jeff?

10 MR. KUSHAN: I'm going to answer one thing, and
11 if I can, I would like to kind of go back a bit. If you
12 look at the different issues that could be raised in a
13 post-grant challenge, some issues are going to be
14 granted upon a fairly stable challenge basis, i.e., prior
15 art. A piece of prior art ten years after the grant of
16 a patent is going to say pretty much the same thing it
17 said at the date of the grant of the patent.

18 So a system which says, compare the claims to
19 this piece of objective art, is essentially a fair thing
20 to do at any point during the life of the patent when you
21 go to issues which are not so simple like 112 issues,
22 like utility --

23 MS. GREENE: Lack of simplicity is because it's
24 not documentary?

25 MR. KUSHAN: Well, it's not documentary, but the

1 things that existed, the perception that people had as
2 to what was enabled in 1980 are vastly different from
3 what would be enabled in 2000. So 15 years after the
4 patent grant, everything's changed as to the thing that
5 you're measuring, and so I think it's fundamentally
6 unfair to have an open-ended process for these variable
7 factors of patentability.

8 So it makes sense for those issues like 112,
9 other than, best mode -- hopefully we'll get rid of best
10 mode altogether -- but best mode should not be part of any
11 type of post-grant challenge procedure. The 112 written
12 description and enablement issues, fairly speaking,
13 should be open for a few years after the patent grant
14 for review.

15 If they're going to be a basis for killing the
16 patent, then I think it's fairer to the patent owner, in
17 particular, to have those issues go into a litigation
18 environment where there's really a fair vetting of the
19 evidence and the potential and challenge option for
20 measuring witnesses and testimony and things of that
21 nature. So as far as over time, those issues are going
22 to become less appropriate for the PTO to take up.

23 Now, kind of backing up, I've always envisioned
24 a post-grant challenge to be a beneficial thing if it
25 taps what the PTO does well, or should I say does better

1 than juries in courts could do. And in that sense, you
2 kind of look at the things that PTO examiners do very
3 well or the PTO knows how to do well, that's not the
4 entire scope of issues that are relevant in a patent
5 case. All these issues -- unenforceability, certainly
6 not, subjective inquires on best mode, PTO doesn't check

1 Now, going into the opposition versus re-exam
2 camp, I think the experience we've had in getting
3 diversion out of the PTO makes me very weary of setting
4 up a resource intensive procedure that would require a
5 lot of resources to run fairly and to keep everybody's
6 interest protected in the PTO net, so I know that's not
7 a --

8 MR. LEVIN: Could you just clarify the
9 distinction between opposition and re-exam? What exactly
10 are you distinguishing between?

11 MR. KUSHAN: Let's kind of go to what's on the
12 table, which is the PTO's proposed establishing
13 essentially an opposition unit where you will have
14 procedures for challenging patents that have -- like an
15 interference judge running a litigation like procedure,
16 meaning that they will take oral testimony, they will
17 hear witnesses, they will allow discovery, they will do
18 this whole kind of full type of evidentiary inquiries that
19 you would have in a court, almost full, but basically run
20 it like you would have in front of a judge.

21 MR. LEVIN: So you mean the distinction as in
22 the Strategic Plan?

23 MR. KUSHAN: Right, and the re-exam, in contrast,
24 is where you don't have that full range of things. It's
25 documentary. Basically, you don't have oral hearings, you

1 don't get discovery; it's things you write down on
2 paper.

3 MR. LEVIN: Thanks for clarifying.

4 MR. KUSHAN: In fairness, I think everybody
5 would love to have a real post-grant/opposition
6 challenge procedure where you could have a very vigorous
7 alternative to district courts. That's, I think,
8 ultimately going to be make-believe. We'll never get
9 the resources and all the other things worked out to
10 make it really work that way.

11 And I think the experience of any companies in the
12 European system, you become specialists in opposition
13 proceedings. If you're a famous company, a number of
14 your patents that get challenged are out of proportion
15 to what the commercial impact or the validity issues
16 are, and it just becomes just a big drag on your ability
17 to take your patent portfolio and use it fairly.

18 That goes to two points I'm going to close
19 with. One is, I think we always have to maintain some
20 kind of a speed bump into the process, some sort of
21 threshold inquiry that is objective that the PTO makes
22 before you can start one of these proceedings.
23 Otherwise, it is just fair game for harassment.

24 If I can just log anything into the PTO and that
25 starts a proceeding, that is not what we need. We don't

1 need that kind of procedure. We need something where
2 there's going to be a threshold inquiry, and after
3 you've met that threshold for legitimacy for the
4 proceeding, then you have a very vigorous proceeding.

5 MR. COHEN: Are you thinking of something like a
6 substantial issue of patentability or something else?

7 MR. KUSHAN: I think you could take either that
8 standard or using something that the PTO might be able to
9 comprehend, like the prima facie standard for obviousness
10 or some other standard like that, but that there would be,
11 before the proceeding starts, a fair inquiry, and an
12 objective inquiry by the offices to say you, all right,
13 you met the threshold, let's start the proceeding.

14 MR. DICKINSON: We do that 90 percent of the
15 time -- a little over 90 percent of the time the office
16 today finds a substantial new issue and grants
17 patentability.

18 MR. KUSHAN: So that kind of thing should be
19 preserved, and it should be, because we need a little
20 bit of a break on virtually anything coming in. That's
21 a competitive issue too, because you can have people
22 harassing you constantly if you don't have that kind of
23 threshold.

24 I think ultimately, like Nancy has said, and
25 it's absolutely true, the way that they set the thing

1 up, the thing that came out of the legislative process,
2 that became interpartes re-exam, and we still don't have
3 the bill signed, so any day now it will be signed by the
4 President, and then those two things will be fixed. But
5 the estoppel thing, it's just toxic. Why risk it? I
6 think until that's fixed, you're just not going to see
7 any assessment of the interpartes proceeding.

8 The 112 issues I think fairly should be put in
9 there. I think in a lot of the discussions I've been
10 in, you need to put a time limit on it, maybe two to
11 three years, and that would be a fair limit.

12 Finally, I think some of the criteria of
13 patentability that are going to be based on subjective
14 or oral testimony on sale bar issues, if you can't
15 document the basis of invalidity, it may not be
16 appropriate to throw that thing into the PTO if you're
17 not going to make a full blown setting where you can
18 cross-examine the witness who has given that testimony.

19 That goes to a trade-off we've got to make in the
20 system. If you want to have a system that has a fairly
21 high throughput and it's fairly simple and fast, you're
22 going to exclude the things that require evaluation of
23 witness testimony and other types of discovery to happen

24 (16) inside the PTO it, maybe. It may seem and resolve have used on subjective

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1 oppositions and re-examinations to the point where
they're going to be more expensive than litigation0mfnd1

1 forth, makes a re-examination or an opposition beneficial
2 in a way because it says at least it will then become a
3 public document, and the public can have the opportunity
4 to see what went on in the contest between the parties.

5 Now, when you get into litigation, there's a
6 secrecy order put on. The protective order continues
7 past the litigation, and persons who are potentially
8 interested in knowing what happened in that litigation
9 and what the limitations and so forth were, are faced
10 with a blank wall because they can't obtain the
11 documents because all the parties want to put it under
12 seal.

13 Even if they settle the litigation, they all put
14 it under seal, and the court that has the temerity to
15 suggest that it ought to be a public record is promptly
16 criticized, at least usually by both parties, and yet
17 the public needs to know what went on in those
18 litigations. And the burden ought to be on the litigant,
19 once he files a lawsuit, that he has to recognize that
20 what he is putting before the court is going to be put
21 before the public ultimately, and if he's not willing to
22 do that, then maybe he shouldn't bring the lawsuit in
23 the first place.

24 There's far too much secrecy in what goes on,
25 and it doesn't benefit the public, and one advantage of

1 a re-examination and opposition proceeding is that it
2 would be more public, just like a reissue proceeding, so
3 that everybody has an opportunity to see what the
4 arguments were and what's presented and how it's
5 presented and what art is available.

6 I think the re-examination is going to be a
7 mistake. I think the biggest problem we have is to try
8 to bolster disclosures of what happens in litigation,
9 and I think most of these proposals are going to create
10 a lot of expense, and they're not going to cut down,
11 overall, on the expense of litigation.

12 What we need to do is -- the litigation is perhaps
13 inefficient, but it discloses all the facts, and it gets
14 to the ultimate question of validity, 112, best mode and
15 everything else in the context of opposition, and by a
16 defendant who is trying to bring out the best evidence,
17 that's the best way to test a patent.

18 I think most of these are superficial efforts to
19 make the public feel that we're doing something useful,
20 when it will turn out that that's really not very
21 helpful.

22 MS. GREENE: Mel?

23 MR. GARNER: One of the things I can say that
24 will save a little bit of time is that I agree almost
25 totally with Jeff as to the scope of what should go on

1 in a re-examination.

2 I just want to make a couple of points about
3 additional benefits. I think that if you have a
4 re-examination process which is essentially limited to
5 those subject matters, it will more often be done by
6 typical prosecution counsel, both outside and in-house
7 counsel, and quite frankly they cost less than
8 sophisticated trial counsel.

9 To the extent you migrate the process into an

1 process will be faster.

2 I had some experience with a European
3 opposition. In my case, I'm not sure this is a rule,
4 most of it was documentary. It was references that were
5 cited. Yes, there was an oral hearing, but it was not
6 something that required a sophisticated counsel.

7 Essentially you made a short presentation, you
8 answered questions from the judges, and that was it. We
9 actually went up on appeal, and it was a similar kind of
10 process. One thing that was amazing to me was that the
11 decisions were rendered from the bench. They would go
12 away for a half hour and come back and tell you what the
13 decision was. And in my case, they had decided that the
14 claims were too broad, and they allowed us to sit there
15 and amend our claims and present them to them, and they
16 went back behind closed doors and came back and said,
17 yeah, those are okay, and it got through. So it was
18 a very efficient process when we actually got there, but
19 the whole process took three years.

20 One item where I do disagree with Jeff and with
21 Nancy is the estoppel issue. I think that once you have
22 started this process, you have established that you have
23 a right to be there, and if you get a decision on the
24 merits, be it from the examiner, that estoppel ought to
25 kick in. If you don't do that, you can game the system.

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1 a good patent is open. To my way of thinking a good
2 patent application is not necessarily a good patent.

3 Speedy resolution of a patent through the patent
4 office is not necessarily the public purpose. I do not
5 know whether the public purpose is to maximize the
6 number of patents, minimize the number of patents or
7 something else all together.

8 It seems to me that, in the rush to bring
9 economics into the patent office and to the
10 consideration of patents, what I think we're missing is
11 that it's a public purpose, and the public purpose is to
12 promote innovation in a certain way and to perhaps get
13 involved with the transfer of wealth or the creation of
14 wealth of a new species.

15 Somehow or the other, I'm just completely
16 puzzled at the distinction between patents and patent
17 applications. I mean, I do not believe that somebody
18 who applies for a patent is a customer of the patent
19 office. I do not believe that a discussion about patent
20 policy can proceed atomistically patent by patent.

21 I think we have to decide what things are we
22 going to patent and what things are going to be part of
23 the patent board. I cannot imagine any organization in
24 the world, public or private, that has the kind of
25 throughput that the patent office has, and then we say

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1 it's not doing its job, it's not possible. I do not know.
2 I mean, the Indian trains I think have probably as much
3 throughput. That's the level we're talking about, and I
4 think unless we deal with this at this managerial level
5 first by saying, look, we are going to exclude some
6 things out -- wheelbarrow patents now are things that
7 we can safely leave to the private sector -- that sort of
8 thing it seems to me unless we can think about that really
9 fundamentally, it seems to me many other discussions may
10 be moot. I just don't see the point.

11 MS. GREENE: Bob?

12 MR. TAYLOR: Let me address a couple of remarks
13 that Jim Gambrell and Mel made a few minutes ago. It's
14 important to recognize that the decision of a company to
15 start a re-examination proceeding, in the past under the
16 old law, under the current law and going forward, will
17 always be a strategic decision, and it will often have
18 its roots in how the lawyers for a potential defendant,
19 a challenger, view the likelihood of improving their lot
20 by going that route or improving their lot by staying
21 in court.

22 That decision gets made all the time today.
23 Very rarely does a defendant start a lengthy patent
24 litigation or even enter into serious discussions about
25 licensing a key patent without asking the question: am I

1 better off by going to the patent office and starting a
2 re-examination proceeding?

3 The reason the system isn't used more today than
4 it is I suspect is going to hold true, even if you make
5 changes regarding the estoppel effect. There is an
6 estoppel effect when you start a re-examination
7 proceeding because you've taken a step to challenge the

1 construed to be inherent in a particular description.

2 Yet in one case it's the patent owner wants to
3 argue that people of ordinary skill didn't know,
4 wouldn't have seen something, and in the other case the
5 patent owner will want to argue exactly the reverse, and
6 trial lawyers know that.

7 So the decision to separate validity, and
8 particularly obviousness, and hand that over to the
9 patent office and retain some of the other validity
10 issues, has implications for the way in which you prepare
11 cases for trial, and those are very hard to get rid of.

12 In Section 112 issues, some of the Section 112
13 issues are easily dealt with on the objective facts that
14 would be in front of the patent office or can be found
15 in the file history. Whether, for example, there is a
16 written description, it's not likely to be one that
17 requires references to the files of the patent
18 applicant.

19 But, enablement, for example, there are many
20 situations, I've been in several cases within the last
21 four or five years in which the patent applicant, after
22 filing the patent application, continued to experiment
23 with the technology. Those are private experiments
24 conducted very secretly, yet they had enormous relevance to
25 the question of whether that patent was enabling of the

1 scope of the patent claims that the patent office
2 ultimately issued. And to get to that kind of information,
3 I just don't see that happening in the context of a patent
4 office proceeding. I may be completely wrong about that,
5 but my perception is that that's not going to happen.

6 Jim talks about the confidentiality rules.
7 There is indeed a confidentiality fight that goes on
8 today at the beginning of almost every piece of patent
9 litigation. The person who is relinquishing sensitive
10 technology to the litigation process wants in place a
11 vigorous protective order that will prevent competitors
12 from having access to their most sensitive and latest
13 information on research.

14 You won't want the other side, frequently the
15 engineers and even the in-house lawyers for the other
16 side, having access to that. And litigants are going to
17 continue to fight about that, and if the patent office
18 intends to get into those kind of issues with respect to
19 either or both parties in an interpartes kind of
20 proceeding, I think it's going to have to take some
21 steps to protect the confidentiality of the
22 information.

23 The ITC routinely -- on the day that an ITC case
24 is filed, a protective order is issued, and the
25 information disclosed to that agency is protected very

1 carefully.

2 MS. GREENE: Thank you.

3 MR. DICKINSON: Can I ask my partner a quick
4 question following up?

5 MS. GREENE: I don't know what quick means.

6 MR. DICKINSON: The interpartes re-exam provided
7 for something which has happened occasionally in
8 litigation, namely that the district court judge can
9 stay of the litigation and refer the patent back to the
10 office for re-examination.

11 How do you feel about being able to do that,
12 encouraging the district courts to doing that more than
13 they're doing it now?

14 MR. TAYLOR: There are a number of mechanisms
15 the district courts have used and can use to deal with
16 some of the complex, technical issues that come up in
17 patent cases. That's one. There will certainly be
18 circumstances where that would be a useful thing for the
19 judge to do, as long as what's being referred to the
20 patent office is a fully framed issue.

21 But, it often happens that this comes up in the
22 context of a case where there's ongoing discovery, where
23 new prior art is constantly being searched for and
24 occasionally being developed, where there's continuing
25 discovery into enablement issues.

1 I think there are other probably more effective
2 mechanisms than just stopping a piece of litigation cold
3 and asking the patent office to take a second look at
4 something, unless it's a very specific question.

5 MS. GREENE: Now, we're actually starting to
6 bleed into the subjects for this afternoon which
7 includes litigation, so what I'm going to do is just
8 take down Steve and Jay, and then you all will get to
9 start off when we return at two o'clock. Fair enough?

10 (Whereupon, a lunch recess was taken at 12:45
11 p.m.)

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1 AFTERNOON SESSION

2 (Resumed at 2:00 p.m.)

3 MS. GREENE: Thank you all for joining us again,
4 and we have two additional participants in the
5 afternoon. We have Brian Kahin, who is the Director for
6 the Center for Information Policy at the University of
7 Maryland and a Visiting Professor in the College of
8 Information Studies with appointments also in the School
9 of Public Affairs, and the R. H. Smith School of
10 Business, and he's currently conducting research on
11 economic and social implications of information
12 technology, and among his prior posts, was as a Senior
13 Policy Analyst at the White House Office of Science and
14 Technology Policy in the late 1990s.

15 We also are being joined by Jay Thomas, and he
16 is a Professor at Georgetown Law Center, a patent
17 professor who has published numerous articles on
18 intellectual property law, including in Boston College,
19 Illinois and UCLA law reviews most recently, and he also
20 has his very own text case book, right? "The World
21 According to Jay," and he also served as a law clerk to
22 Chief Judge Helen Nies of the Federal Circuit.

23 We were discussing this morning the sort of
24 broad question of patent quality and then specifically
25 within the context of access to prior art and re-exam/post-

1 not sure the patent office is the right forum to deal with
2 112 type issues. If you're just dealing with pure prior
3 art type issues it makes sense to do that in a
4 revocation proceeding.

5 For some of the reasons that Professor Levin had
6 commented, it does make a lot of sense to have a short
7 time period, but not so short as in six months or a
8 year, but perhaps a little bit longer than that, and one
9 of the reasons for doing that is also to ensure that
10 certainty is brought into the system.

11 In other words, you want to draw a clear line
12 between acquisition and enforcement and you want to say,
13 well, acquisition of the patent ride is over and the train
14 has left the station and there is certainty. And in one of
15 the studies that was sponsored by Mr. Merrill in the Munich
16 group, one of the things they show is, one of the best
17 predictors of the value of a patent is that it has survived
18 the opposition process.

19 So it makes a lot of economic sense to signal to
20 the marketplace and say, listen, this is a good patent,
21 and so unnecessarily dragging on this process of opposition
22 for several years and so on doesn't make a lot of sense.

23 I do want to just make one small clarification.
24 In Japan they started out -- they did have a process where
25 they sent the validity decisions to the PTO or the JPO

1 rather, but now they actually have validity
2 determinations that can be made by the courts there now,
3 and actually the number of filings in the court have
4 increased.

5 I spent some time this last summer at the JPO,
6 and they told me that they are thinking of collapsing
7 their process. Basically they had a process where they
8 had an invalidation trial, and they had an opposition,
9 and they were both a nullity proceeding and a
10 invalidation, and they want to collapse both the
11 processes and have one opposition for a fixed period of
12 time and then have subsequent proceedings in the courts.

13 MS. GREENE: Thank you. Steve?

14 MR. MERRILL: Just a footnote to the re-exam/
15 opposition discussion. 40 percent of re-exams are owner
16 initiated, or patent holder initiated, which suggests
17 that, at the least, that we need to retain a re-exam
18 system, but it would also be interesting to know more
19 about both motivation and results in those cases.

20 My understanding is that very few are revoked, but
21 a large number are amended, and so that in itself may be
22 a significant or not trivial quality control mechanism.

23 MS. GREENE: Brian?

24 MR. KAHIN: I would just like to say something
25 since I did sit through the morning.

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1 by Mel Garner's suggestion that the patent system has
2 adapted to treat computer code and DNA code differently,
3 and I think that's quite remarkable that the system has
4 adapted to get ourselves out of our TRIPS obligations.

5 I'm all for that because I think the
6 nondiscrimination provision in TRIPS which is, of course,
nondiscrimination against technology, not people, is

1 to represent an area with a lot of pharmaceutical
2 companies, and suddenly you have a strong push for
3 longer protection for pharmaceutical patents than for
4 anything else or vice-versa in software?

5 So I think there are challenges to doing it.
6 That doesn't mean it should be off the table and free
7 from discussion.

8 MS. GREENE: Scott?

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1 So that's really the reason they see a
2 difference there. When you look at how a software
3 patent is frequently claimed, what you find is it's
4 claimed in a very functional manner. You would have
5 difficulty getting away with that if you were in the
6 biotechnology area because it's easy to search, or
7 straightforward to search for the sequence and you
8 wouldn't find the examiner was willing to accept your
9 ideas as to what the function was.

10 As a matter of fact, there is certainly some
11 Supreme Court case law suggesting that functionality, at
12 the point of novelty, is going to raise issues of
13 written description. So I'm not so sure that it was a
14 conscious choice.

15 MS. GREENE: Mel?

16 MR. GARNER: Actually I disagree with that a
17 little bit. It's very easy to search functionality.
18 You can do word searches through lots of patents. A
19 major part of my practice is the prosecution of software
20 patents. I get very good rejections with patents based
21 on patents, sometimes based on non patent prior art,
22 because the examiners can go into their databases and
23 search the terms which are reflected in my claim because
24 the claims are written functionally.

25 Just a little bit aside, I think the professor

1 from Harvard said things such as wheelbarrows shouldn't
2 be patented, that they should essentially be left to
3 their own devices. Of course that's not the law, but I
4 have a practical example. I bought a snow shovel this
5 past year, which you would say, well, shovels have been
6 around since the beginning of time, but this shovel has a
7 little curve in it, and it turns out because of that
8 little curve, you don't get a pain in your back. So I
9 don't see that we should automatically eliminate any
10 kind of technology, as simple as it might seem, because
11 someone may just come up with a new innovation. And what
12 we should really do is look to what the quality of the
13 innovation is, as opposed to what the subject matter is.

14 MR. DICKINSON: I want to do one quick cute
15 story I suppose. I was accused once when I was in the
16 office -- someone made a big to do about the fact that the
17 patent office actually issued a patent on the wheel, and
18 we went back and looked at that, and it turns out that
19 about every week I think there are probably five to ten
20 patents on new wheels that issued from the Patent and
21 Trademark Office.

22 MS. GREENE: Bhaskar, do you want to respond?
23 Microphone.

24 MR. BHASKAR: Of course. Not to defend, I think
25 I may be even familiar with the patent that you are

1 describing, and if I'm right, it actually may well
2 belong to a friend of mine, and it's a patent -- as it
3 happens the engineering of snow shovels is something
4 that I have discussed in great length, and
5 you're right, there's a lot of scope for a novelty,
6 including devices that would eliminate snow all
7 together.

8 The thing is that what I do want to say is that
9 it's not that there shouldn't be innovation or it's not that
10 innovations about wheelbarrows shouldn't be protected or
11 anything like that. It is a question of what the public
12 purpose is. I want to suggest that it's state of the art
13 science, state of the art engineering that should be
14 most relevant to the public purpose, and something else
15 can make it through, of course, but the burden ought to
16 be on science and technology and what the government is
17 able to do, because the patent examiner is somebody who
18 is implementing public policy and serving the public
19 purpose.

20 I just want to say, of course subject matter
21 determinations are very, very difficult, and yet I think
22 we need to understand what portions of this we can
23 really afford. I mean, if an hour of patent examiner
24 time costs \$15 million, that's an interesting
25 difficulty. It's a constraint, and we ought to ask: how

1 best do we use it, wheelbarrows or recombinant DNA?

2 MS. GREENE: Thank you. Very quickly to Jeff
3 and Brian, and then we're going to switch to our next
4 topic.

5 MR. KUSHAN: I can be very quick. One of the
6 things that always is difficult is everybody has these
7 over generalized notions of what our patent system is
8 supposed to do, and everybody loosely connects the
9 patent system as a way of inducing innovation.

10 Well, if you kind of go through a bit more of
11 this in a mechanistic way, what the patent system
12 requires is disclosure. Disclosure pushes information
13 flows out into the sector, and you have the bank shot
14 benefit of probably more innovation happening.

15 In the real world, people get patents so that
16 they can get exclusivity in the market for their
17 technology, and it boils down to a very simple thing:
18 can you exploit exclusivity to a commercial advantage?

19 If you can't, you're not going to waste money on

1 technology has been superseded and the patent is
2 actually corresponding to the invention pretty well, if
3 no one is using your patented technology, the fact that
4 you have a thousand year term isn't going to make any
5 difference because it's not being relevant.

6 That's where, at the end of the day, the desire
7 many have to sit there as this grand puppeteer to tune
8 every last aspect of the patent system and match some
9 economic model is just pointless. You make some bright
10 lines; 20 years, everything can be patented, three
11 basic tests, and let's hope that that basic set of rules
12 produces what we want, which is information flowing into
13 the public sector instead of being held as trade secret.
14 Then, make sure that these rights that come out, which are
15 the incidence of patents, are precise enough in terms of
16 their relationship to the innovation, that you don't have
17 distortions caused by too broad rights being handed to
18 people who don't make that kind of contribution.

19 I tend to be infuriating to everybody in the
20 patent economic business because I'm way too practical,
21 but having lived through so many efforts to tweak little
22 things, it's just so frustrating to get anything done in
23 the grand scheme of business, that I try to think of how
24 do we do the things that might have a better impact.

25 MR. DICKINSON: That thousand year term, by the

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1 matter of knocking out bad patents. I think it's a
2 matter of making the patent better. I think you get a
3 more comprehensive examination in the vast majority of
4 those cases and presumably a narrow set of claims or a
5 more artfully crafted set of claims at the end of the
6 day, which is to the better, but I don't think you're
7 really knocking out bad patents, but you're getting
8 higher quality patents I think.

9 MR. KAHIN: Well, you do both.

10 MR. DICKINSON: That's true.

11 MS. GREENE: Jon.

12 MR. LEVIN: I want to follow-up on what Jeff
13 said. Actually I couldn't agree more with what you
14 said. I think that you're exactly right to say that the
15 role where economic analysis comes into patent policy
16 shouldn't necessarily be in trying to have an exact fine
17 tune model of the chemical products industry and the
18 biotechnology industry and then tailoring it to very
19 specific decisions.

20 Economics doesn't do well, probably wouldn't do
21 well there. Where it does well is in thinking about the
22 broad principle of what are the big trade-offs in length
23 of patent term and the big trade-offs in how you set up
24 some of these things, and I don't think we get any
25 argument from most economists, or at least not from this

1 MR. GARNER: My view is that the standards are
2 proper the way they are and the way the courts have
3 enforced them. With respect to the presumption of
4 validity, that presumption is that the patent will be
5 valid over those things that the patent office looked
6 at.

7 If you come forward with prior art that was not
8 previously considered, generally the courts say that the
9 presumption all but disappears, so essentially the court
10 is now going to make a determination because there's no
11 presumption that the examiner would have allowed the
12 claims had he known about this prior art, which is newly
13 developed.

14 Also, because the patent office itself is the
15 governmental agency which is sort of neutral and has
16 determined that this patent should be allowed, for an
17 interested third-party, the defendant, to come forward
18 he should do more than show a preponderance. He should
19 show by clear evidence that the decision that was made
20 by the patent office is incorrect.

21 The third thing which is the triple damages for
22 willful infringement, that's left to the sound
23 discretion of the trial judge who has heard all the
24 evidence. He doesn't have to automatically grant it, he
25 could make it zero. And there should be some sort of

1 deterrent for those who would infringe a patent
2 willfully without a good defense to keep them from doing
3 that or keeping them from doing that in a situation
4 where they don't have a good defense because otherwise,
5 there's no reason for them to settle, because if they're
6 going to have the same result whether they got a good
7 defense or not, they might as well fight. You never know,
8 you could be lucky. The other side could have bad counsel
9 or something like that. So I think all three of those
10 things are precisely where they should be.

11 MS. GREENE: Jay?

12 MR. THOMAS: I believe the presumption of
13 validity is set too high based on what happens at the
14 patent office. The fact is the patent officer will
15 resolve issues based on a preponderance standard. Any
16 applicant who presents an application to the office is
17 presumed to be entitled to the application, and the
18 examiner will attempt to overcome that presumption
19 simply by a preponderance of the evidence.

20 There are very few standards that are weighed by
21 an examiner that are not accomplished through the
22 presumption, by again through a mere preponderance.
23 There doesn't seem to be much reason to magically graft
24 a higher civil standard of clear and convincing based on
25 what examiners actually do. That's also something

1 that's been done by the courts. The statute does not
2 speak to the appropriate burden of proof.

3 I guess I'm sort of torn on this because I think
4 effectively we have to ask whether this is more than a
5 burden shifting mechanism. If we have a presumption of
6 validity, is it really doing just anything more than shifting
7 the burden?

8 The burden is probably properly upon an accused
9 infringer to unseat the patent. The question is whether
10 it really matters to courts or juries whether it's a
11 mere preponderance or clear and convincing.

12 To the extent we think it matters, plainly it's
13 set too high, because examiners aren't weighing these
14 evidentiary matters on clear and convincing. They're
15 merely weighing it on preponderance.

16 As far as willful infringement damages, treble
17 damages, my belief is that this should not be part of
18 the patent law, and this is also mistaken policy, and
19 the fact is, most accused infringers are going to pay
20 more than they've earned because usually the patentee
21 will have higher -- usually the profits, for example, of
22 the generic drug company will be smaller than that of
23 the brand name pharmaceutical because they usually will
24 charge a lower price.

25 So the fact is that since they have to pay not

1 what they earned -- patent damages are not a discordant
2 measure, they're a legal compensation -- they have to pay
3 more in straight damages than they possibly have
4 earned.

5 I think the in terrorem effect upon willful
6 infringement and all the facts and circumstances,
7 judgments made by trial courts, lead to an incredible
8 amount of commercial uncertainty, and I believe the U.S.
9 is isolated. We simply stand alone on this. There are
10 no other major patent granting jurisdictions that award
11 on -- damages, and it's a poor policy.

12 MR. COHEN: Just to follow-up on that, in
13 focusing on the effects of the willfulness possibility,
14 do you find that it impedes the efforts of firms in
15 their planning to avoid running into patent mines? Do
16 you find that it impedes the ability of firms to profit
17 from the disclosures that patents are supposed to be
18 generating?

19 MR. THOMAS: I can only convey to you what I've
20 heard, but taking industry at its word, a lot of
21 people, particularly in software, say that we simply
22 don't consult patents because we're fearful of enhanced
23 liability, which would of course cut down the
24 information disclosure functions.

25 Others are scared off of launching products.

1 of equations set forth. Many other countries have
2 examination systems but don't have an explicit statutory
3 presumption, but at least in the U.S. regime, I guess
4 the theory is that you've done a thorough examination,
5 and that the patent that comes out of that examination,
6 how it generates its entitlement to the presumption of
7 validity, is not measured by what standards the examiners
8 use in judging the question of nonobvious or enablement
9 or written description.

10 That inquiry is one which presumably lends
11 itself to these objectively measurable factors and then
12 some subjectivity, but the net effect is that you have
13 an examination that is complete and thorough, and at the
14 end of that you have a patent.

15 Because we've invested \$1.3 billion a year doing
16 that, then the things that come out of that patent
17 office presumably should get some standing to deter
18 people from infringing patents.

19 The presumption is one deterrent to patent

1 people away from infringement.

2 I guess the question that ultimately comes into
3 play is really, in those circumstances where you don't
4 have a logical entitlement to that presumption, for
5 example, if you don't have art that's been considered
6 during an examination, which is clearly relevant to a
7 claim, how do we step down that presumption so that you
8 have more of a PTO like evaluation in the first instance
9 of that claim?

10 At the end of the day, does that mean you amend
11 the statutory presumption of validity? I don't know.
12 I'm too poisoned in my view of trying to have logical
13 stances reflected in the patent law. We always come up
14 with logical, well crafted laws, and we give them to
15 Congress and we get the AIPA.

16 So we could devise something which would be a
17 pretty well-tuned depression of the presumption of
18 validity in an instance of new prior art, and it would
19 be handed to Congress, and then the generic drug
20 industry would come in and say, let's make it easy,
21 let's just say no presumption, and that's much more
22 understandable and appealing so you get that standard.

23 So I guess we've got to balance some of these
24 very legitimate lack of entitlement scenarios against
25 what we can actually get through the Congress.

MR. DICKINSON: What do you think of these1

1 commercial significance until about ten years after the
2 patent expired. Does that mean the patent was really
3 super valid and expired? I don't know.

4 There is a reliance concept that, I guess, you want
5 to try to draw into this, which is that after some amount of
6 time, you as a patent owner shouldn't fear easy
7 invalidation of your patent especially in --

8 MR. DICKINSON: You want to be more heavily
9 invested at that point.

10 MR. KUSHAN: Especially like in the
11 pharmaceutical industry or things like that where you
12 have a lot of money spent on the assumption that you
13 have a pretty clean patent picture in front of you.

14 MR. COHEN: Let me throw one more thing on the
15 table. It's all part of the same discussion. I was
16 struck this morning hearing that there were some aspects
17 of the patent inquiry that people felt maybe wouldn't
18 work so well, even in an opposition system because the PTO
19 doesn't do very well from its nature in examining those
20 aspects of the patentability.

21 And yet, when you get to court, there is a
22 presumption, and there is a clear and convincing
23 evidence standard as to all the aspects.

24 MR. KUSHAN: That is a very valid point, like on
25 the issues of on sale activity. I mean, PTO examiners

1 typically won't discover that type of information, and
2 you're right, you still get a pretty steep hurdle in
3 front of the party who wants to challenge on that rather
4 than validity.

5 MS. GREENE: Jay?

6 MR. KESAN: I just wanted to pick up on a couple
7 of things that were mentioned. I think the real
8 underlying concern is, when you talk about prior art that
9 was considered and you want a presumption of validity
10 with respect to what was considered, the question is, how
11 do you determine that? How do you determine what art was really
12 considered? It makes sense to me that if a complete and
13 thorough examination with respect to that prior art were
14 considered, then that was considered by the examiner, it
15 makes sense to have a presumption of validity.

16 What we have now, however, is an overbroad
17 presumption of validity. That's why linking the
18 presumption of validity to something like surviving
19 post-grant review or linking presumption of validity to
20 some heightened disclosure standard, where you say if
21 you, as an option, or if you choose to disclose the most
22 relevant prior art, then I will grant you a presumption
23 with respect to that, sort of incentivising that kind of
24 a disclosure, it makes sense to sort of tie it and make
25 it specific.

1 It makes absolutely no sense to have a
2 presumption of validity for a whole bunch of things that
3 are listed in a form. It doesn't make a lot of sense to
4 have a presumption of validity against things that the
5 PTO by its own regulations says we don't consider.

6 So it seems to me that what we're really talking
7 about here is we're talking about the statute and the
8 reality. And the reality is that there are certain
9 practices that are followed, and there are certain
10 things that are done and having a presumption of
11 validity for that makes sense, and it also makes sense
12 to use the presumption of validity as a carrot, as a
13 carrot for enhanced disclosures, as a carrot for going
14 through post-grant review and so on. It should not be
15 automatic.

16 MS. GREENE: Scott?

17 MR. CHAMBERS: I was going to say that it seems
18 as though the presumption of validity can be very
19 important when you're trying to get a preliminary
20 injunction, that without that presumption of validity,
21 it's going to be an uphill battle. So I can't see it
22 would be a benefit to get rid of that presumption.

23 I wanted mostly to talk about Jay's idea,
24 Jay Thomas' point about willfulness, and it's been my
25 experience that, although a lot of people ask for

1 trebling of damages, it's not that often it really gets
2 trebled. It's really only imposing on the accused
3 infringer the requirement that he's going to go out and
4 get a good opinion of counsel showing why his product
5 doesn't infringe or why that particular patent is
6 invalid.

7 It's not something that it's really going to
8 stifle the industry. It's more that he's going to have
9 to do his homework. It is something that's necessary
10 though, because without the ability to treble damages or
11 without the ability to get enhanced damages, you're
12 going to have to have the patent holder quantify his
13 damages, and sometimes that's not too easy to do,
14 especially if the market is developing or if he does not
15 have the same capacity he would have had, had the
16 competitor not come on the market.

17 So it really assists the patent holder in the
18 sense of making somebody who's going to challenge
19 through infringement his rights, go out and get a good
20 opinion of counsel, and also he's not the individual
21 who's going to have to be ultimately concerned with
22 showing each and every penny that he's lost by this
23 infringement.

24 MS. GREENE: James?

25 MR. GAMBRELL: There have been a number of

1 points made, and let me start with the last one. It
2 seems to me the idea of a presumption of validity to
3 help a preliminary injunction motion is an ill-formed
4 idea and should not have any particular relevance to the
5 question of preliminary injunction.

6 I think Jon is quite correct about what an
7 examiner does is he weights whether it's more probable
8 one way or the other as to issue that patent. He's not
9 making an informed judgment. The courts have overall
10 said frequently he's not an expert in the field. He's
11 an informed person, but he's not an expert, and he's
12 trying to decide whether there's more probable evidence
13 to justify him issuing the patent than not.

14 So it seems to me the presumption of validity
15 should be much lower, and certainly should be non
16 existent when the best art is not before the office.

17 I think on the treble damages, I tend to take a
18 middle ground I suppose. I think there are two filters
19 on getting treble damages for willful infringement.
20 Not only do you have to get the jury or the district

1 the district court who has awarded willful
2 infringement. They virtually never will send it back on
3 a willful infringement determination where no willful
4 damages are awarded, so you really have a pretty good
5 couple of filters.

6 I suggest though, better than treble damages for
7 willful infringement, would be to give the plaintiff his
8 actual damages that he can establish and prove, and if
9 there's truly willful infringement, award him attorney
10 fees for having persisted in this case against a defendant
11 who has violated basic premise and reasonableness by
12 saying, I'm going to defend against this patent even
13 though it's crystal clear or should have been crystal
14 clear to me that I had no business doing it.

15 That way you award him the actual cost of having
16 gone through the process, the patentee, but you don't
17 reward him with three times the damages, which have no
18 correlation between what his inconvenience was and what
19 his reward is if he gets treble damages.

20 Now, on the standard, it seems to me that -- I'm not
21 troubled by the standard generally, except for the fact
22 that the examiners have no ability to exercise their
23 independent judgment in cases which were marginal at
24 best.

25 It's true that patents may not be harmful if

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1 challenger. The clear and convincing evidence standard
2 is higher than preponderance of the evidence, but it's not
3 like beyond a reasonable doubt.

4 I think juries are well capable of understanding
5 different burdens, just as well as judges are, just as
6 well as we at this table are. Why do we want to give no
7 value essentially to having patent applications examined
8 in the Patent and Trademark Office?

9 I've heard a lot of discussion about, well, in
10 this situation we'll give a preponderance of the
11 evidence standard. This one we'll give we say
12 presumption of validity, but I'll say clear and
13 convincing evidence because I think that's really what
14 we're talking about.

15 And in this situation where the applicant has come
16 forward with the best art, I guess we'll start with a
17 clear and convincing evidence standard, but if the
18 defendant comes forward and establishes that this isn't
19 the best art, however you establish that, then in fact
20 we're going to shift the burden and make it a
21 preponderance of the evidence standard.

22 As a user of the system, again I'm worried about
23 complicating litigation to do this. It sounds to me
24 like terribly complicated. I could be wrong, but I
25 don't see what's wrong with the system as it's working

1 today. There are a few bad patents. We've talked
2 earlier about how to tackle bad patents in the office.

3 If you go for re-exam, there is no presumption,
4 there is no clear and convincing evidence standard, so
5 you don't have to worry about it in that case, but once
6 you're in the courts with a patent that has, in fact,
7 been examined in the Patent and Trademark Office, what
8 is the problem with having the burden than be a little
9 more than preponderance of evidence? I just don't get
10 it.

11 MS. GREENE: Let Jim respond and then --

12 MR. GAMBRELL: Let me make one quick comment.
13 Most presumptions, the presumption of validity being an
14 exception, evaporate. Once evidence is presented on the
15 other side of that preponderance, it goes away, and it's
16 up to the question of the two parties to establish who's
17 entitled to relief.

18 This is a rather unusual situation where a
19 presumption has an everlasting life, and that just
20 doesn't make sense in our law, and it certainly is anti-
21 defendant in its effect.

22 MS. DESANTI: Excuse me. Can you just explain
23 why it is that this has an everlasting life?

24 MR. GAMBRELL: Because when a judge hands a jury
25 an instruction and says that, it has to be established by

1 is too complicated or at least simplicity is a goal,
2 then that's a major reason to get rid of willful
3 infringement as a factor of patent law.

4 First, we've heard that it supposedly incents
5 opinion of counsel to guide accused infringers, but in
6 fact, it's pretty commonly known in the patent bar that
7 most of the opinions produced by counsel are commonly
8 known as non-infringement and invalidity opinions
9 because that's inevitably the advice that they give.

10 So I don't think we're getting a lot of quality
11 advice from counsel. In fact, I think we're getting
12 sort of pats on the back that, you might as well
13 continue and here's your shield from the triple damages.

14 So it certainly incents our economy to the
15 extent that it encourages patent attorney opinions. Whether
16 it actually guides commercial behavior, I think it
17 remains to be shown.

18 Willful infringement also leads to a lot of
19 satellite litigation because it makes us evaluate these
20 opinions, and it leads to complexities in litigation
21 that are not worth the benefit of the opinions.

22 It also requires litigants to either waive
23 attorney/client privilege or to seek new counsel, and in
24 general I think it's basically not worth the low
25 benefits we get. As far as we don't want people to

1 infringe, that's the purpose of willful infringement, we
2 don't want people to infringe; that's simply not the case.
3 In fact, patent statute is alone among the trademark,
4 copyright, the federal intellectual property statutes, in
5 not having a criminal component to infringement. It's
6 distinct from the other intellectual property statutes
7 on that point.

8 Patent infringement is sort of like a breach in
9 contract law. We don't penalize people for breaching
10 contracts. They're free to walk out of the deal, and in
11 fact we think that's more efficient that sometimes they
12 do because they compensate the other contracting party
13 and move on to a deal that's better. That gets the good
14 to the individual in our society who values it the
15 best.

16 Similarly we may not want people infringing
17 patents I suppose, but what we do want are competitors
18 who are incited to rid the public of the odious nature
19 of improvidently granted proprietary rights. And in fact,
20 accused infringers are the only ones who are able to
21 bring challenges before the courts.

22 So in fact, we don't want to disincent people
23 from infringing, we want to encourage competition by
24 having a lot of interested parties who are able to
25 challenge patents. So to the extent willful infringement

1 detracts from all of those competition policies, again I
2 think it's just not worth the minimal goals that we get
3 or benefits we get.

4 Thank you.

5 MR. COHEN: We just noticed that you said that
6 accused infringers are the only ones able to bring this
7 before the courts. That raises the issue of standing to
8 challenge patent validity. Is there anybody who would
9 like to comment on that? I would like to throw that
10 issue out in general.

1 Thomas' cynicism about the integrity of his colleagues
2 of the bar doesn't rub off on his students.

1 procedural device. Now, I recognize that you will see
2 an occasional decision, particularly from the Federal
3 Circuit, where the presumption gets extolled in terms
4 that make it something different and perhaps more
5 compelling than a procedural device, but as a practical
6 matter, in litigation, I can't think of any case that
7 I've ever been in, and I've been in dozens of these
8 cases, where the presumption of validity made very much
9 difference in terms of the outcome, and particularly on
10 validity.

11 There is something to be said for the reaction
12 that juries have to a United States patent and that red
13 ribbon. For reasons that I've never understood -- and
14 I've talked to dozens and dozens of lawyers about this
15 and we all have somewhat the same reaction -- for
16 mysterious reasons, United States juries assign a level

1 system serves a good purpose and that rewarding people
2 for inventions is a worthy public purpose, but it
3 certainly exists, and I don't think the presumption of
4 validity has much to do with it.

5 I share the concerns about the doctrine of
6 willful infringement. To some extent I share the
7 perceptions that Professor Thomas asserts. I'm not sure
8 it's a great idea to have lawyers in the business of
9 generating what they know at the time they're generating
10 it will ultimately turn out to be evidence.

11 That creates a spiral between the lawyers who
12 write the opinions and the trial lawyers who go after
13 them on cross examination, and with each passing
14 generation, the sophistication of that spiral gets
15 greater. But there still is a fundamental policy
16 question as to whether that type of evidence ought to be
17 the thing primarily that we rely on.

18 The Federal Circuit has made it clear that in
19 its view, the issue of willful infringement ought
20 primarily to turn on the question of the sanctity of the
21 legal opinion that the company gets and whether it
22 legitimately relied on. That is a policy question that
23 generally ought to be on the table for discussion.

24 I don't think though, that we need or we can
25 advisedly eliminate some kind of sanction imposed upon

1 the company that thumbs its nose at another company's
2 patents. I represent and am in the middle of right now
3 a lawsuit in which my client is a small company that
4 invests 20 percent of its net revenues in research and
5 technology, and that company lives for its patents. It
6 could not exist if its patents weren't protected.

7 It has had more than one occasion where one of
8 the Fortune 500s simply decided, made a conscious
9 decision that it was cheaper to infringe even and pay
10 treble damages, than to take a license because we want
11 that property, it's convenient for us to have it and
12 it doesn't matter that it's yours.

13 I think we have to have some mechanisms in the
14 patent law to discourage that kind of conduct.

15 MS. GREENE: I'm going to turn now to Brian and
16 just sort of reemphasize our curiosity in finding out
17 what is the practical implications of the fear of a
18 finding of willfulness on the ability of folks in the
19 economy to make use of these patents, to make full use
20 of them in terms of the disclosure function. Brian?

21 MR. KAHIN: You want me to answer that
22 specifically?

23 MS. GREENE: No, I'm just putting it out on the
24 table.

25 MR. KAHIN: I will anyway, but first I want to

1 respond to Nancy's comment. It's very easy for these
2 discussions to generate into testimonials about the
3 system is working or that it's not working, and the
4 reason this becomes so fruitless is we really need some
5 kind of objective standard as to how well it's working,
6 and again I say it's working a lot better in some areas
7 than it is working in others.

8 This goes then, to get back into the standard of
9 validity, this is again a quality issue. It may be
10 justified in some areas, but it doesn't appear to be
11 justified in other areas.

12 And, Todd, to your point about the cynicism,
13 about the integrity of the bar, I certainly see a lot of it
14 out in the field among technologists in Silicon Valley,
15 so it is something that does need to be worried about.

16 Then finally on this, going to the question of
17 what is the effect on the disclosure function, I have
18 asked counsel or, in fact, developers in software
19 companies: as a matter of habit, do you look at software
20 patents? What's your policy? And I find almost uniformly
21 there's an internal policy against looking at software
22 patents -- maybe this is to save out-house counsel fees
23 because you need to have out-of-house counsel to give a
24 validity opinion. And on the presumption of validity,
25 this too operates in my experience as a barrier to the

1 disclosure function.

2 I was general counsel for the Interactive Multi
3 Media Association when we were dealing with the
4 Compton's new media patent, and the Commissioner
5 undertook to re-exam that himself. We were out in
6 front pushing for this, and he asked our help in getting
7 prior art from the industry. So we put out a notice, but I
8 had to clear this notice with patent counsel. And they told
9 us, and this was patent counsel from different member companies,
10 you must be careful because you don't want to simply ask
11 for prior art. You've got to make it clear to people that
12 that prior art may become part of the file, and it will
13 inhibit them from using that prior art in litigation.

14 So we had to put that in this request for prior
15 art, and as a result of that, we got almost nothing, and
16 the Commissioner complained to us.

17 MS. GREENE: Right, Mel?

18 MR. GARNER: On the issue of the presumption of
19 validity, essentially what the argument seems to be on
20 the other side is that somehow a federal district judge
21 or a jury of laymen should make this decision and that
22 the examiner, who is trained in the technology, who
23 works at it five days a week, six or seven hours a day,
24 somehow his judgment in a close question should be
25 overthrown in favor of a preponderance standard by

1 people who don't understand the technology and who don't
2 work in the field and who don't know the prior art.

1 behind. Why would I do that? I'm going to be deposed
2 on this opinion. People do not write paper opinions
3 that they're not willing to stand up and stand behind.

4 I've been deposed probably three or four times

1 review a case for every piece of prior art over a
2 certain amount, that would give him more time to do it,
3 but of course that would cost more money. Then what you
4 could do is you could charge the applicant extra money,
5 so if you submit more than ten references, you've got to
6 pay to submit those references, and you can then get
7 yourself a discount say of 50 percent if you not only

1 a later lawsuit.

2 Well, shouldn't they be willing to put that on
3 the line if they think this patent is invalid? Why
4 should they be holding it in their back pocket for some
5 litigation down the line? Why not put it in -- if you
6 really are going to say in public that the Compton
7 patent or any other patent is invalid, then why don't
8 you stand behind your words and put that prior art into
9 the patent office and get it challenged?

10 MR. KAHIN: The simple answer is they didn't
11 trust the patent office.

12 MR. GARNER: I think the real answer is that a
13 lot of people are willing to say things in public about
14 how bad the system is, how weak the patents are, and
15 when they're asked to put their money where their mouth
16 is, they back down.

17 MR. KAHIN: I think there may be some of that
18 true too, but I think the concern was it would go back
19 before the same examiner and would come out
20 strengthened.

21 MS. GREENE: Yes?

22 MR. DICKINSON: Which is a good reason why I
23 changed that rule while I was there too, and now in
24 re-exam it does not go before the same examiner any
25 longer because the system does continue to need the kind

1 of fine tuning and the office hopefully has an
2 opportunity to make those fine tunings.

3 Mel said most everything I was going to say with
4 regard to -- and I was a little, more than a little
5 harsh with Professor Thomas, and I apologize for that --
6 about how the reality of the system works in opinion
7 writing.

8 If you have sought an opinion from outside
9 counsel, you write it if you're going to support the
10 position you want, and if you can't support the
11 position, you tell them orally, and then they swallow
12 hard and figure out what they're going to do about it,
13 and that I think leads to --

14 MR. GAMBRELL: Then they find another lawyer
15 from a perfectly good firm that will write them the
16 opinion they want.

17 MR. DICKINSON: I'm not sure that's the case.
18 I've written a lot of opinions, and I've given a lot of
19 oral opinions.

20 MR. GAMBRELL: I have too, and I've looked at a
21 lot of others.

22 MR. DICKINSON: I know you have. We could
23 debate this a real long time, but it's also a function
24 of the fact that that's the way the courts, the CAFC in
25 particular, sort of sets up the system. It's a little

1 Kabuki like the way they set up the system, and maybe
2 that could use a little more review at that level, as
3 opposed to the level of the opinion writer.

4 MR. GAMBRELL: Consider the fact that in patent
5 litigation, inevitably both sides will have a technical
6 expert. We're not talking about patent experts now. And
7 each one of them will have qualifications from their
8 elbow clear up around their shoulder to their other arm,
9 and in fact, they're taking diametrically opposed
10 positions, and frequently a judge will tell you later,
11 how do I decide between these two experts which one's
12 telling it like it is?

13 The same thing is true of opinions. You can get
14 an opinion from a legitimate lawyer on nearly anything
15 if you want to. Now, you may not agree and I may not
16 agree on a given opinion and I won't give it, but I can
17 assure you they will find someone who has all the
18 credentials and who will go through all the motions and
19 come to the conclusion that there's no infringement.

12

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1 quickly, then we can put our fourth issue on the table,
2 get into that, and then we'll have time at the end for
3 people to make comments with regard to any of the issues
4 that they couldn't make.

5 Jeff?

6 MR. KUSHAN: Like Todd has said, Mel's comments
7 are I think true. I just add to the point that, first
8 of all, that comment from Jim is condemning litigation
9 generally. I mean, experts in litigation are not unique
10 to patent cases, and so you're not speaking of the
11 unique problem to the U.S. litigation environment.

12 MR. GAMBRELL: Absolutely not. You're right.

13 MR. KUSHAN: So the second thing is I found,
14 like Mel, if I'm not willing to sit up and get grilled
15 for a couple days in front of people about what I would
16 say in an opinion, I'm not going to put it on paper.
17 I'm not going to give that opinion. And the person who

1 instead of having a patent system which says, if you
2 want to play in the area of this technology, you make
3 another invention to compete with the invention, compete
4 on technology, compete on innovation, that's how I've
5 always perceived the patent system, to be promoting that
6 end, not a system which says copiers, people who want to
7 make the exact same thing as the innovator, is what we
8 are all about, we want to make sure we have as many
9 challenges to patents and kill off as many valid patents
10 as possible so we can have copies of the thing that the
11 first innovator made.

12 The conceptual basis that justifies this
13 presumption validity is that if you have a valid patent,
14 and that's the "if" that we have to fight over, and that's
15 where we look at re-exam to clear the invalid patents or
16 other mechanisms to clear the invalid patents. But for the
17 core that's left of valid patents that have been
18 examined, that presumption of validity says, if you want
19 to play in this area, you're going to make another
20 invention, you're not going to make the exact
21 invention. So maybe it's a theological point, but I think that
22 is a pretty powerful thing to keep in mind given our
23 innovation culture.

24 MS. GREENE: Now, we have the litigation issue,
25 Kabuki theater and theology, and let me turn to Jay,

1 opinion of counsel goes, I think one of the issues that
2 was not mentioned is the negative inference issue, and
3 that is that nowadays the Federal Circuit requires that
4 if you have an opinion of counsel --

5 (Discussion off the record.)

6 MR. KESAN: The real issue is the Federal
7 Circuit requires that when you have an opinion of
8 counsel and you don't turn it over, it requires that the
9 jury be allowed to make a negative inference based on
10 that, and that is a real disincentive to sort of have an
11 honest opinion because that's why you have this sort of
12 papering over and this sort of dance going on because
13 you have this sort of spoliation inference which really
14 hurts you.

15 Another point I wanted to make was my real
16 concern is that the existence of willful damages
17 actually puts pressure on us focusing on the issue of
18 compensatory damages to the fullest extent possible. In
19 other words, I'm not talking about reasonable royalty
20 now, I'm talking about lost profits, and to the
21 extent that we don't properly focus on fully
22 compensating the patentee for everything from -- in a
23 two seller market it's very simple, and it's just a
24 patentee and the infringer.

25 We don't properly focus on price erosion, overall

1 price erosion, not just market share, and we don't focus on
2 what is really going on, the fact that you have willful
3 damages sort of prevents us from looking at a very
4 important piece of the puzzle, which is making sure the
5 patentee is really made whole, which is what is required by
6 the statute.

7 The final point I wanted to make was that -- and Brian
8 has made this point a couple of times, I just wanted to
9 pick up on it -- and that is that the reason why software
10 patents are not relied on by the industry is also in
11 part because they contain so little useful information.

12 The enablement requirements are so poorly
13 policed for software patents that there is no real
14 meaningful disclosure. Part of this is because of what
15 the Federal Circuit has done. We would like to think
16 patent law is not policy specific, but in reality it
17 is. We have utility guidelines separate for
18 biotechnology patents. We have examination guidelines separate
19 for computer inventions. We have biotechnology and software
20 being very differently for obviousness and enablement by
21 the Federal Circuit. This is going on, and so it makes
22 sense for us to police the enablement requirements. It
23 makes sense for us to require and mandate the use of
24 things like representational languages, which is the way
25 software programmers speak to each other, and mandate

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1 that those things be disclosed in the specification.

2 MS. GREENE: Scott.

3 MR. CHAMBERS: I would like to address a couple
4 of issues. The first is sending art into the office,
5 and I would almost always recommend to my client it not
6 get sent in. There's a couple reasons for that. The
7 first is, for almost all patents out there, it's going to
8 be ex parte prosecution.

9 So that once I send it in, I may get to see what
10 the other side says about it, but these things like
11 examiner interviews and statements that spin that
12 particular art in a certain direction, I'm going to
13 have no input into that.

14 Now, with this interpartes re-examination, maybe
15 that will change, but still, I'm not going to be able to
16 have a deposition where I can hand this to the inventor
17 and parse through it and ask him certain points about it.
18 So I would much rather have that piece of prior art in
19 my back pocket waiting for some district court
20 litigation than hand it over to the office.

21 In terms of the question about going out and
22 getting an opinion of counsel, it's certainly true that
23 you can get a lot of different quality opinions of
24 counsel, but if you look at some of the cases like
25 Cellpro, you see that, gee, if that opinion of counsel

1 doesn't measure up, you're going to be in real trouble.

2 Finally, one of the things that Brian suggested
3 was that because individuals in the computer arts don't
4 look at patents, that that somehow suggests that the
5 disclosure function of patents is not really working.
6 But, that suggests that the disclosure function
7 of patents is just for that single document.

8 The other way to look at patents is that once I
9 have a patent on file, once I have filed something, I
10 can go out and tell the world about it. It's that
11 disclosure function that the patent system promotes, not
12 just four or five years after you file it there will be
13 a piece of paper that describes it, it's also that once
14 I got it on file, I can tell the world.

15 MS. GREENE: Jay?

16 MR. THOMAS: Thank you. I certainly, on the
17 opinion of counsel, didn't mean to state -- and if I did
18 state, I misspoke and overstated my case -- that the
19 patent bar is full of connivers that are going to
20 cynically dish out any kind of opinion. If I said
21 that, I misspoke and I should also forward an apology.
22 But, I do believe the patent law has reached the stage
23 of uncertainty where issues like obviousness, written
24 description, equivalency, lend themselves to a variety
25 of interpretations under very difficult and complex

1 factual settings.

2 I do think, on the margins, there are some client
3 pressures that tend to push attorneys one way, again on the
4 margins. I'm not saying that every opinion is not worth
5 having, but again if every opinion is an opinion of
6 invalidity and not of infringement, what is the worth of
7 garnering opinions?

8 Again I think your comments are quite right,
9 except the assumption of validity is quite a big one.
10 If we assume the patents are all valid, yeah, we don't
11 want infringers. We can't assume that, and
12 experience suggests that in fact many patents are
13 improvidently granted.

14 Also, just a very brief theology point, I think
15 we must remember that certainly outside our circle of
16 patent-related individuals, everyone else is going to
17 view the patent system as a limited exception to the
18 privilege to compete. We simply can't imply that competitors,
19 in order to participate in our market, must innovate. The
20 patent system is not drawn to make everyone an innovator,
21 and that's not a ticket to entry into the market.

22 I'm amused by the Patent and Trademark Office's
23 Strategic Plan which says, we're looking at other
24 systems to see what the best practices are and we're
25 going to borrow those.

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1 Well, that's the privilege to compete but to the
2 extent the patent system intrudes upon that, it's a
3 limited one, and I'm sure the patent office is pretty
4 happy that a lot of the techniques it seems are best
5 practices for patent examination have not been subject
6 to proprietary interests. Thank you.

7 MS. GREENE: I'm going to switch now to our
8 fourth topic, which is the assimilation of economic and
9 competition policy considerations, and we are curious,
10 throughout this entire session brought out by Jon Levin,
11 among others, the role of economic analysis and patent
12 law.

13 We want to focus on: should there be and are
14 there appropriate ways for patent law to take into
15 account economic welfare and competition concerns? And,
16 moving along that path in terms of specifics, is there a
17 role for antitrust enforcement agencies to play with
18 regard to amicus briefs? And also, would conferring
19 substantive rulemaking authority on the PTO potentially
20 give greater play to those considerations?

21 Okay. Bob?

22 MR. TAYLOR: There are many places where the
23 patent system needs to draw on competition and
24 competition principles, and indeed I suggest to you that
25 it does and it has going clear back to the constitutional

1 origins of the patent laws.

2 You recall the patent clause and the copyright
3 clause got into the constitution largely based on the
4 experience of the British in connection with the statute
5 of monopolies and prior behaviors of the kings of
6 England in that respect, and we've always framed the
7 patent system against the backdrop of competition.

8 It finds expression in all sorts of patent law
9 doctrines, particularly of late. The whole concept of the
10 Markman hearing was an effort by the Federal Circuit, a
11 very considered effort after several years of letting
12 juries construe patent claims, in recognition that from
13 a standpoint of good competition policy, it makes sense
14 for the public to be able to discern objectively the
15 scope of the patent claim without having to wait until
16 the patent claim is handed over to a jury and without
17 having to be at risk of different juries construing the
18 same patent claim in different ways.

19 I may have tried the last case where the jury
20 got to construe the patent claims, and they got them
21 completely wrong, leading to something that I was never
22 really able to correct on appeal because the economics
23 of having been held to infringe kind of overran my
24 client and they ended up having to settle the case. I
25 felt very poignantly the significance of that process

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1 where we didn't do it quite so objectively.

2 The Festo decision by the Federal Circuit, the
3 Federal Circuit has actually been more willing to draw
4 bright, clear lines around the patent property than has the
5 Supreme Court, both in Hilton Davis and again in Festo,
6 where you saw the Federal Circuit trying to limit the
7 Doctrine of Equivalents and the Supreme Court saying,
8 well, we understand of the policy reasons for confining
9 it, but we think you've over done it.

10 With respect to whether there's a role for the
11 antitrust enforcement agencies in this area, I would urge
12 you to do it with some considerable care, but there
13 certainly are issues where the government can and has
14 filed briefs.

15 Indeed I think the best of the briefs filed in
16 the Festo case was the one filed by the Solicitor
17 General in the Department of Justice, and it found I
18 think as much expression in the final opinion of the
19 Supreme Court in Festo as did any of the briefs of the
20 parties.

21 So there is a role there to play. I think you
22 have to look and -- let me say this a slightly different
23 way. I think you have to recognize that there are
24 already built into the rules of the patent system a good
25 deal of points at which the Federal Circuit and the lower

1 courts are already recognizing competitive principles.

2 MS. GREENE: Bhaskar?

3 MR. BHASKAR: I've been realizing that my focus
4 throughout today has been a bit different -- I learned
5 within five times.

6 I realize that my focus today and my interest
7 has been a little bit different than many of the
8 panelists have chosen to pursue, and so for the purposes
9 of simply making it, so to speak, on the record, I want
10 to say a couple things about my sense of where I think

1 is to say, each patent sort of hangs out by itself, and
2 we think about the merits of the patent, of that patent,
3 of the processes to which the patent has been subject to
4 and so on. But, I will suggest that the public purpose is
5 not to have a good patent system, but the public purpose
6 is to identify what is a good patent and then create a
7 system, however imperfect, that produces those kinds of
8 patents.

9 It seems to me that equating efficiency and
10 process with a good patenting system would be a
11 tremendous abdication of responsibility.

12 My introduction to patents, not counting a
13 chemical glass making experience in 1961, happened at
14 IBM research in the early 90s, and I came to realize
15 that one of IBM's big reward from having so many patents
16 each year was the licensing revenue, which is basically
17 gravy. It's expense free revenue, and in those days
18 in a \$60 billion company, it was about \$6 billion a
19 year. It's a non-trivial amount of money.

20 The second thing is that we quickly came to
21 realize that a patent was not, as many people thought, a
22 road to advancement in the Watson Research Center, that
23 a patent was part of a portfolio, and to the extent that
24 it was valuable and as one of IBM's lawyers put it at
25 the time, to the extent that they could intimidate the

1 people from Hitachi, he said at the licensing
2 discussions, that's what we want.

3 So it seems to me that discussions of portfolio
4 are exceedingly important, and to say that there are
5 discussions of portfolio then leads me to one other
6 thing.

7 We've been thinking that the best patent is one
8 that is best drafted and one where the claims are the
9 most artful, where they're narrowly drawn, and I think
10 that that sort of makes sense. A good paper is one
11 where the themes are narrowly written. A good
12 experiment is one where things are tight, but perhaps
13 that's not the right way to think about patents.

14 Originally -- patents were kind of broadly
15 construed, and we've had those kinds of experiments.
16 For example, the Korean Television Industry, they didn't
17 call them patents, but they are the same thing. I'll be
18 done in just a couple of minutes.

19 The thing I want to say is that now we have
20 three purposes of the patent system, unlike what we had
21 when this particular patent system was invented. First,
22 that we believe that there is a liberal right to a
23 patent, that is, I invent something, I'm an American, I
24 need my patent, okay. Charleton Heston won't take it away
25 from my bare hands.

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1 The second thing is that the patent system, it
2 seems to me, has a clear international component. We
3 think of our patent system and other company's patent
4 systems as very much part of our international
5 activities, and so that's completely our -- purpose
6 it seems to me.

7 Finally there is this purpose which I suggest is
8 the most important one of all which is simply not part
9 of our debate so far, which is to facilitate the
10 creation and growth of a new species of wealth,
11 information wealth on the web, biological wealth and so
12 on, so that's what I wanted to say.

13 MS. GREENE: Steve.

14 MR. MERRILL: Without answering your two
15 specific questions, I wanted to repeat the point I made
16 earlier this morning that I think, in thinking about this
17 issue, it's important to consider what's changed and
18 whether that is positive or negative.

1 it's meager, but compared to the period in which Rick
2 Levin and Dick Nelson were beginning to work on patent
3 use in different industries, it's blossomed one would
4 have to say.

5 It can only be encouraged by a receptivity of
6 the administrative process and the judicial process to
7 using it. I think we've had a positive role in the
8 academy in encouraging it by making it relevant to
9 policy discussions in Washington and providing an
10 audience for it.

11 Now, on the other hand, the question I think
12 important to ask is whether the receptivity is the same
13 or greater or less, and it's useful certainly to compare
14 this to other areas of law, like antitrust. But, it's also
15 good to compare over time, and I only have a couple of
16 data points, and others may have other impressions, but
17 my impression is that the environment for it has
18 deteriorated.

19 One reason is that the patent office, which once
20 had a very fairly robust in-house analytical capability,
21 has a very limited in-house analytical capability now.
22 And the other factor which we've been told repeatedly is
23 that the advent of the Federal Circuit has made the
24 judicial process less receptive to exterior analysis,
25 whether economic or even legal scholarship.

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1 I don't know whether that's true, but that is a
2 frequent allegation compared not only to the Supreme
3 Court, but also to the regional circuit courts, that they
4 are simply not interested except on an individual basis
5 in having amicus briefs. They're not interested in
6 having economic research or legal scholarships cited in
7 briefs.

8 MS. GREENE: Todd.

9 MR. DICKINSON: Let me follow-up a little on
10 that, and also maybe attempt to address the specific
11 questions that you've asked in this, relative to the
12 PTO.

13 First of all, Steve and the STEP Board should be
14 congratulated for the studies they are undertaking
15 because they are very valuable towards bolstering what
16 is a fairly modest amount of record in that area.

17 They yield interesting results. One that I was
18 particularly struck by was the fact that in the
19 pharmaceutical industry, there is a de facto research
20 tool exemption. There's a lot of discussion about
21 whether there should be one or not, and there's a paper
22 that says pharmaceutical companies, for the first time
23 on paper they say, they don't basically sue universities
24 and they don't sue nonprofit researchers, and that's an
25 interesting I think point that comes out.

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1 Part of that dialogue was about the contentiousness
2 around the CSU versus Xerox case and some other things,
3 but I think that dialogue is always, always beneficial.

4 You asked whether conferring substantive
5 rulemaking authority would be a good thing or not.
6 That's an interesting question. I think in large part
7 the PTO probably thinks they have substantive rulemaking
8 or at least in the way they exercise certain of their
9 activities, they have given a de facto rulemaking some
10 presence.

11 Solicitor Linck, Dr. Linck when she was there is
12 probably responsible as any for the guidelines,
13 processes which I think were under Commissioner Lehman
14 and Solicitor Linck's tenure used in ways that really I
15 think advanced that.

16 I used to get into debates on software patents
17 with several folks, one of whom, Professor Lessig by name,
18 continues to charge, I'm putting it in his words, that we
19 take these steps of issuing software patents without any
20 public discussion whether that's a good thing or not.
21 I had to remind him that I think the office had three
22 or four hearings during the '90s about software patents
23 and whether they were a good thing or not and whether or
24 not the software guidelines, software examination
25 guidelines, were appropriate or not.

1 So there is a certain level of rulemaking that
2 occurs which would be characterized I think as
3 substance. Should it go beyond that? Should the
4 office, for example, craft rules around prosecution
5 latches or around other things? They have done some of
6 that too, but it's at a much more granular level in
7 certain of the art units, and some of it filters up to
8 guidelines and then on up to rulemaking, but it may not
9 be as cohesive or as comprehensive as you mean it to be,
10 and they could probably benefit by studying it more if
they had a few more dollars.e if

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1 pulled back a little in the current administration, but
2 then you still see things like -- let me respond to your
3 concerns about Lessig because what I see going on in
4 WIPO now in which the U.S., presumably with a policy
5 developed by the patent office -- which isn't on the web
6 site, even the comments to the WIPO hearing are only
7 privately posted on the web site. You can't find them with
8 a search -- is taking a very strong unilateralist
9 position that every country in the world should require
10 business method patents. Not only that, it's threatened
11 to walk out of these negotiations on substantive patent
12 law for the Substantive Patent Law Treaty.

13 So this exemplifies what I think of as the worst
14 excesses of the patent office's policy development in the
15 past. They go off on their own, sort of out of public
16 site, and do this advocacy policy development thing that
17 has no empirical grounding whatsoever. So we've got a
18 problem there.

19 We've got a problem in that in this area, the
20 lawyers and economists don't talk to each other, and
21 that's partly because much of the economists' work, this
22 is not all the lawyers' fault, the economists do tend to
23 think in terms of abstract models that don't apply very
24 well to the realities of the patent system, and in fact
25 few of them understand the practical and strategic

1 dimensions of the patent system.

2 The empirical work that has been done is very
3 valuable, but it doesn't get us very far, and it
4 certainly hasn't focused on the software and business
5 method areas that are the most problematic, and I've had
6 discussions with Steve about the academy's work, which I
7 feel is overly focused on existing data.

8 There's this tendency to look at what the patent
9 office is doing and then looking at what the courts are
10 doing because that's where the data is. So there's no
11 understanding of the important stuff, which is what goes
12 on out there in the real world in between.

13 We don't have a grasp on licensing. We don't
14 know how much licensing is really transfer of knowledge,
15 in which one company sees what another company is doing,
16 like it is and wants to do the same thing or how much of
17 it is settlement of the litigation.

18 We see an awful lot of cross licensing going
19 on. How do you treat that? Do you count that the way
20 you do advertising bartering on the web? Is that the real
21 volume of activity going on there?

22 We don't have a systematic perspective -- not
23 only do we not have a portfolio-level perspective,
24 although you heard something about that in the hearing --
25 but we don't have a sort of an ecological perspective

1 MR. KESAN: I'm not so sure I can answer that
2 specific question, however.

3 MS. GREENE: Make your points. I was just
4 throwing that on the table.

5 MR. KESAN: Although I will try at the end. I
6 think Brian is exactly correct, and there is not a lot
7 of attention that has been paid to creating original
8 data sets, to looking at specific issues in different
9 industries and to try and understand what is really
10 going on.

11 To me the patent system has an aspirational goal,
12 and the aspirational goal is that we tolerate some ex post
13 deviation from competition because we believe that has
14 some ex ante incentives, and we tolerate that because
15 we believe that that is overall going to be good for
16 society, and that's a very basic assumption.

17 That's a perfectly reasonable assumption to
18 make, except that the actual structures of all the
19 different industries are quite different. And how exactly
20 they appropriate reward from innovation in that industry,
21 going beyond patents, is quite different.

22 So in other words, for example, if you are in
23 the world of software, you may be appropriating benefits
24 from your innovation in different ways. It's not
25 entirely patent driven. Maybe it's patent driven in

1 We, after all, have a patent system to reward
2 that kind of progress, sort of decimal point progress.
3 But, the question is, if it is not a valid patent and
4 there is a real effect by this, it seems to me that an
5 agency like the FTC ought to be in a position to sort of
6 solve this collective action problem or to solve this
7 coordination problem between all these parties that are
8 all affected. And I realize that this is seeking new
9 statutes and standing requirements and so on, but it
10 seems to me to make sense then to have somebody step in and
11 essentially solve the collective action problem and
12 challenge the invalid patent. It seems to make sense to me.

13 As far as the PTO's rulemaking ability goes, I
14 think they're doing that. I don't care what the Kessler
15 case says and what the Federal Circuit has said about
16 only procedural rulemaking and so on and so forth. It's
17 happening.

18 MS. GREENE: I was going to remind folks that
19 one of the issues we have on the table is the amicus
20 role for the agencies, and Jay obviously has expanded
21 that exponentially. We are going to run over by a
22 few minutes, and obviously when people need to leave,
23 they can just do so, but I wanted to make sure that
24 everybody has a chance to get their comments in and on
25 the record. Jim?

1 MR. GAMBRELL: I certainly sympathize with and
2 agree with the idea of a more active role by the Federal
3 Trade Commission and Department of Justice. It seems to
4 me somehow they have to have a standing to sue and
5 clarify the validity or invalidity for patents that do
6 stand in this substantially important cross road which
7 has just been mentioned. But, I come back to the point
8 I made a long time ago earlier today, it seems to me
9 that there are two ways of looking at the interrelationship
10 between patent protection and competition, and we seem
11 to have gotten far away from the idea that the rule of
12 law in this country is competition, and the exception
13 to the competition is patent protection where it's clearly
14 justified and where it doesn't unduly harm the
15 competitive effort.

16 Patents have, through the patent office and
17 patent lawyers and AIPLA and ABA section, have gotten to
18 the point where the glorification is of the patent protection,
19 with apologizes to you, Mel. You're here only
20 officially, but since I'm a member of it, I suppose I
21 can speak at least as one participant -- but it seems to
22 me we ought to be looking at this and saying, how much
23 protection do we need? For example, we've talked here over
24 and over, a number of speakers including Brian have pointed
25 out that in the software area, development blossoms and

1 explodes without patent protection, and for a long time,
2 there was no patent protection in software, and somehow
3 it didn't interfere with the explosion and development
4 of new and increasingly creative ideas.

5 In the same area, there are other places --

6 while I know Judge Rich has said we've always given

6v (of antitrust cases patents, in fact, dissuasive 42) 87 years ago,

1 so can you address that as well.

2 MR. LEVIN: I want to come to one of his other
3 points first.

4 MS. GREENE: Absolutely.

5 MR. LEVIN: So it seems to me that several
6 people now have raised the issue -- it's been
7 raised a couple times -- of how different -- across
8 industries there are big differences in the competitive
9 conditions, and also in appropriability, and so, in
10 software, for example, it's not clear that patents play
11 a huge role in appropriating the returns for R&D, but in
12 pharmaceuticals, clearly things are different. And there
13 are a number of extremely good empirical academic studies
14 on precisely this, not the least of which by another
15 economist Levin.

16 So you might think that this would actually be a
17 terrific role for the FTC to play in coming in and
18 trying to inform, for example, how should the patent
19 office deal with a particular industry, biotechnology or
20 business methods.

21 I think the one thing that's difficult about
22 that is that the market power conditions in an industry
23 or the appropriability in the industry, these are not
24 immutable laws of nature. These are things that change
25 over time, and in substance. Where economic analysis does

1 best, say in something like antitrust, is in looking at
2 how are things now, and typically empirical studies can
3 do a great job in assessing that.

4 And, where it's harder is saying: where are things
5 going to go, and particularly where things are changing.
6 Anything the patent office is dealing with is just, by
7 definition, an industry where there's tremendous change
8 going on. There's a lot of R&D going on, and so that's
9 where it's hardest to use an empirical snapshot of what's
10 going on now and then project forward. So I
11 think while there's a role, I think that's the
12 limitation.

13 If I can come to your second point, where I
14 think economic analysis can be extremely useful is in
15 thinking about the broader institutional questions of
16 how do we set up the rules of the patent office or,
17 for example, to take this issue of re-examination:
18 what are the strategic incentives caused by different
19 re-examination rules? What are the likely economic
20 welfare consequences? Who's going to have an incentive
21 to do what if we structure the rules one way or the other?

22 For example, Hillary just mentioned this
23 question of in the re-examination process, is there a
24 sufficient incentive for people to come forward with
25 prior art? Do people internalize the social value of an

1 invalid patent actual being invalidated, and perhaps
2 not? Economics have a lot to say about those kind of
3 concerns, so I think that's potentially one important
4 role for FTC, basically what you're doing now.

5 MS. GREENE: Mel.

6 MR. GARNER: Actually I have two points. One is
7 to disagree to a certain extent with Brian and Jim about
8 the effect of patents in the software industry. I know
9 that the patent office is currently awash in patent
10 applications that have been filed, so much so that
11 they're not getting examined. So to say the software
12 industry is not making use of them, would seem to

1 table, is the possibility of substantive rulemaking for
2 the PTO.

3 So what you see here is us basically throwing
4 out: to what extent would those two things dovetail?

5 MR. COHEN: I think you'll see in the prior
6 transcripts a number of references from PTO panelists to
7 the subject of substantive rulemaking, and if you look
8 at them, I think you'll get the best information that
9 anybody has on what's being thought of.

10 MR. GARNER: It's sort of curious that the
11 Commissioner would make a rule perhaps that said, in
12 this particular industry I've decided I'm not going to
13 grant patents because that would have an
14 anti-competitive effect or something.

15 It sort of really strains your understanding to
16 figure out an agency whose primary job is to grant
17 patents to new, useful and unobvious ideas, then
18 turns around and says, but now I'm going to look at the
19 overall effect of the economy of that and sort of change
20 the rule going forward with that.

21 MS. DESANTI: Let me speak to this issue from an
22 antitrust perspective. One of the things that has
23 happened in antitrust in the last 20 years is the
24 incorporation of economics. Economics is really the
25 fundamental basis of antitrust law to a much larger

1 extent now than it was say in 1974.

2 That has really given antitrust law an
3 appreciation for the free riding and appropriability
4 concerns that animate patent law as well. Those
5 concerns are now subsumed within antitrust analysis.

1 moment -- Bob Taylor was speaking to that issue in terms
2 of saying, well, when you are thinking about making sure
3 that the boundary line around the property is clear,
4 that's one of the ways in which you take into account
5 the fact that it's not like when you have a patent
6 there's no countervailing benefit that you lose.

7 There is something that may be lost, recognizing
8 that not all patents create market power, et cetera, et
9 cetera. There is something that may be lost on the
10 other side, and that's competition, and the forces of
11 competition may provide benefits to society, including
12 innovation. So that's a long winded answer, but that's
13 what animates our question.

14 MS. GREENE: Scott?

15 MR. CHAMBERS: I was just going to point out
16 that what we already know is that the Patent and
17 Trademark Office doesn't have any substantive rulemaking
18 authority. So, at least in the realm of deciding what
19 additional stuff or what additional technology are going
20 to be patented, what happens is that the technology in
21 the Federal Circuit drives it to start looking at these
22 issues.

23 In the instance of software, about the time that
24 the patent office started to look at software patenting,
25 there were two ways you could implement a lot of

1 without having some form of policy decision.

2 From the standpoint of the government agencies
3 having more input into this, they are perfectly free to
4 comment when Federal Register Notices come out. They're
5 perfectly free to give their input to Department of Justice
6 for amicus briefs, and they certainly have the ability to
7 look at these issues and put in their economic thoughts.

8 Finally, from the standpoint of the economic
9 effect or the fact whether or not the patent office has
10 the ability to take economic effects into account, I
11 think that we see that they have in many cases. The
12 idea that you're going to use a second pair of eyes to
13 look at business method patents, that came about because
14 people were concerned with it. So, the Patent and
15 Trademark Office is doing actually a reasonably good job
16 of implementing these and taking a look.

17 MS. GREENE: We'll have our last three
18 comments. Jeff?

19 MR. KUSHAN: Not speaking as a former examiner
20 the idea of having things other than novelty,
21 nonobviousness, written description and enablement
22 would be on my list of things to measure. I can't envision
23 how you would bring into a patent, by patent granting
24 system some kind of externality of economic conditions
25 that would influence the process.

1 Obviously, you would have to look at the
2 capacity to bring those factors into the PTO, is really
3 at a very macroscopic level, and at that level rules
4 aren't relevant. This isn't a rulemaking issue.

5 The rulemaking that the PTO cares about is
6 rulemaking that relate to examination procedures. To
7 some level I think some of the debates you've been
8 engineering over the last year are showing that
9 there are some specific problems that you pull out and
10 look at and try to solve.

11 One of them is the claim breadth or
12 inappropriate claim breadth based on disclosures. These
13 types of things are very good things to tackle, and to
14 the extent that you come up with systems that get
15 integrated into examination practices, great, I think
16 that's a healthy process.

17 Going in and trying to make the examination
18 process on a case-by-case basis more complicated is
19 terrifying to me, and that actually will lead to my last
20 comment, which was kind of prompted by Brian's comment
21 over in the WIPO process.

22 I was at this meeting where the PTO said, knock
23 it off or we're going to go home. It wasn't business
24 method patents they are talking about. It was in response
25 to about 65 developing countries saying, well, we want

1 to deny patents on transgenic plants, we want to deny
2 patents on drugs, we want to deny patents on a whole
3 laundry list of things, and let's redefine microorganism
4 to exclude cell lines and all the things that the
5 biotech industry currently makes.

6 So it was a very broad ranging attack saying,
7 let's inject into this patent standards exercise a
8 decision that all the developing countries of the world
9 can essentially pick and choose which patents they want
10 to grant on a case-by-case basis.

11 As a trade policy matter, that's very
12 objectionable because it's basically saying, this is
10

10

1 posture of the PTO in the international sector as being
2 one of shoving things down the throats of the world, and
3 from what I can tell the world's not opening its mouth.

4 It isn't going to happen any time soon, so I
5 think you can sleep well for the next decade or so.
6 I'll leave it at that.

7 I value my opportunity to participate today.

8 MS. GREENE: Thank you. You've brought up an
9 important point which we have sort of scattered
10 throughout the record as well, in terms of, when you have
11 a particular consideration: how is that this could
12 possibly be implemented at a broad policy level? And,
13 what are the implications, if anything, for sort of an
14 individual examiner in teasing out the distinction that
15 that consideration plays depending upon the level that
16 you're looking at? And let me turn to Brian and then
17 Todd will have the last word.

18 MR. KAHIN: I just looked at the draft report of
19 that meeting that was published the other day, and I
20 read it differently than you do, and certainly what I
21 was hearing in Europe, comports more with my version than
22 yours.

23 The point I want to make specifically in
24 response to what you said is, yes, they did go through
25 this process, but the comments weren't publicly visible

1 and there was no public analysis, and there's no public
2 position. So it's only the few that know about it,
3 namely the patent organizations that were in Geneva or
4 wherever it was, and understand what position the U.S.
5 is taking.

6 To respond to your question specifically about
7 the FTC role, which I didn't get to before I got carried
8 away last time, is that I don't think you should get
9 involved in particular patent cases, and I think the
10 mechanism for commissioner re-examination -- I was very
11 intrigued with what Todd was suggesting and I can think
12 of ways that that could be formalized, so in fact if
13 there is a huge uprising of outrage from the industry,
14 that that's something that's best taken care of directly
15 within the PTO.

16 But, it's more this long-term calibration, and in
17 response to Jonathan, I think the important thing here
18 is monitoring because without monitoring, we're getting some
19 of that here, we wouldn't be aware of these epi-phenomenon
20 that go on at the portfolio level, that go on
21 at the system level.

22 And the European Commission, as part of its
23 draft directive, proposed directive on software, is
24 undertaking to do a monitoring process. They've built
25 that into the proposal. They should do a base line

1 before they implement the directive, but they at least
2 do have it there.

3 MS. GREENE: Jim is going to sneak in and Todd,
4 and then that's really it.

5 MR. GAMBRELL: I want to repeat something very
6 similar, and then I'll tell you why. I had a client in
7 Western Geophysical years ago, the CEO of the case, of
8 the company, every time he sat down to a negotiation
9 with other companies, he would walk into the conference
10 room and instead of sitting on one side of the table with
11 all of his fellow employees, he would go over and sit
12 right in the middle of the other side and say, now let's
13 talk about these issues.

14 I suggest this only to remark that one of the
15 things that might help the patent antitrust interface
16 most is if, in fact, someone like Professor Pitofsky,
17 for example, were made commissioner of patents so
18 somebody was looking at it from the standpoint of how
19 they interact.

20 Now, that's putting him on the other side of the
21 table, but it would force a serious question of where
22 the patent system is going, and how it ought to get
23 there.

24 MS. GREENE: Todd.

25 MR. DICKINSON: Thank you very much for the

1 opportunity to go last. I really do appreciate it. I
2 think I would agree with you on that last point, that
3 if I got to be the chairman of the FTC, and my partner
4 Mr. Muris.

5 MR. GAMBRELL: That might be very good, Todd.

6 MR. DICKINSON: Well, it might be. I'm not sure
7 I'm about to that talent. That's a good one. Let me
8 give a couple clean ups and then maybe a general
9 comment.

10 I would support Brian and generally oppose Jim
11 on the issue of whether the FTC and the DOJ should have
12 the independent right to sue to invalidate patents,
13 without a lot more study. I just know what all the
14 implications are of that. It's very dramatic, and I

1 lot of tussling. We know all very well how much tussling
2 there was inside the administration, but again we did
3 come out with one point of view, and that's probably the
4 best way to deal with that.

5 With regard to Brian and the process in Geneva,
6 I think he's generally right that there should be more
7 transparency in terms of what did occur, and I'm curious
8 as to why that doesn't happen, and I sit in that process
9 as well on behalf of the ABA, and I may ask just that
10 question, because I thought it was.

11 One answer may be that, at least as far as the
12 negotiation goes, having done this, the United States
13 takes its treaty negotiation responsibility very
14 seriously at the diplomatic level. They don't always
15 make it as transparent as people would like or need
16 because it's a treaty function as opposed to the
17 substantive aspects of the issue at hand.

18 Finally, as far as the processes that the PTO
19 does have that may be de facto rulemaking, for example
20 the guidelines process, I guess you have to be careful
21 what you ask for, but I've been mildly critical of the
22 antitrust agencies and sort of might encourage them to
23 participate in that process.

24 NIH, to take another governmental agency for
25 example, participated very aggressively in the

1 redrafting of the utility guidelines. And so the
2 opportunity, at least assuming your agency
3 would allow you to do that, exists, and that may
4 be an appropriate first place to start and see how
5 that plays out.

6 Finally let me thank you all, and thank both
7 agencies, both FTC and Department of Justice, for
8 giving us all the opportunity to vet this and for
9 such a thorough really deliberate and ongoing process.

10 As Hillary said, it seems like just yesterday,
11 but when you reflect on it, it has been a very long time
12 with an enormous body of information which will be
13 almost invaluable going forward, so thank you all for
14 that.

15 MS. GREENE: Thank you all, and my last little
16 point is I misspoke at the beginning. The period for
17 which you can send in written comments to the record is
18 November 15, not November 6, so if any of you want to
19 write up anything that you've said today or want to
20 supplement what you said today, just be aware that that
21 time exists.

22 Thank you all so much for your time. We
23 greatly appreciate it.

24 (Whereupon, at 4:40 p.m. the workshop was
25 concluded.)

1 C E R T I F I C A T I O N O F R E P O R T E R

2

3 CASE TITLE: Workshop

4 HEARING DATE: October 25, 2002

5

6 I HEREBY CERTIFY that the transcript contained
7 herein is a full and accurate transcript of the notes
8 taken by me at the hearing on the above cause before the
9 FEDERAL TRADE COMMISSION to the best of my knowledge and
10 belief.

11

12 DATED: November 1, 2002

13

14

15 DEBRA L. MAHEUX

16

17

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

19

20 I HEREBY CERTIFY that I proofread the transcript
21 for accuracy in spelling, hyphenation, punctuation and
22 format.

23

24 DIANE QUADE