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FEDERAL TRADE COMMISSION

THE EVOLVING IP MARKETPLACE

Tuesday, May 5, 2009

9:00 a.m.

Co-hosted by the Federal Trade Commission and  
the Berkeley Center for Law & Technology,  
and the Berkeley Competition Policy Center

Held at the  
The Haas School of Business, Cheit Hall  
University of California, Berkeley  
2220 Piedmont Avenue, Wells Fargo Room  
Berkeley, California 94720

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FEDERAL TRADE COMMISSION

I N D E X

Page:

Panel 1: The Notice Function of Patents: 3

Panel 2: Patent Remedies: 136

1 PANEL 1: THE NOTICE FUNCTION OF PATENTS

2 MODERATORS:

3 BILL COHEN, FTC

4 BILL ADKINSON, FTC

5 PANELISTS:

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7 California, Irvine School of Law

8 DARALYN J. DURIE, Partner, Durie Tangri Page Lemley Roberts

9 & Kent LLP

10 MICHELLE LEE, Head of Patents and Patent Strategy, Google,

11 Inc.

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P R O C E E D I N G S

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MR. ADKINSON: Good morning and welcome to the second and last day of our hearings here in Berkeley. And, indeed, the final day of hearings on our project on the Evolving IP Marketplace. We are welcoming public comments on the project. And the closing day is fast approaching. It's ten days from now, on May 15th. So please get your comments in as soon as possible.

My name is Bill Adkinson. I'm an attorney in the Policy Studies Office of the Office of General Counsel at the FTC. It's my pleasure today to introduce the Notice Panel, the panel that will discuss the notice function of patents.

We have an extraordinary group here. Their bios are posted on the website. I tried my best last night to break with tradition and come up with intros that both did justice to the panelists and were short enough and I failed. So I'm going to give short introductions, but please encourage you to -- if you are going to be looking at that transcript, or listening to this, peruse the bios as well. They really are quite -- quite interesting.

1                   The Panel is going to address the extent to which  
2                   the patent system adequately fulfills its notice function.  
3                   For example, ensuring the firms who are seeking to develop  
4                   or license innovative technologies can obtain clear and  
5                   timely information regarding the existence and scope of  
6

1 to her for coming.

2 Peter Menell is Professor of Law at Boalt Hall and  
3 Director of our host, the Berkeley Center for Law and  
4 Technology. So we're especially grateful to him, too.

5 Vernon Norviel is a partner at Wilson, Sonsini,  
6 Goodrich & Rosati;

7 Lee Petherbridge is an Associate Professor of Law  
8 at Loyola School of Law, Los Angeles;

9 Kevin Rivette is -- not quite here yet, but will  
10 be here very shortly. He is the Chair of the PTO, Patent  
11 Public Advisory Committee, and a member of the Intellectual  
12 Property Hall of Fame;

1           How well do you feel the patent system fulfills the notice  
2           function?  And by notice function, what I'm concentrating on  
3           is a enabling firms to identify patent rights that could  
4           read on their products -- on products they plan to design  
5           and produce.  And the provision of information necessary for  
6           licensing and financing arrangements.

7                        So how well do you all feel that the notice  
8           function is being fulfilled?  And what I'll suggest is that  
9           anyone who wants to comment, you can turn your nameplate up  
10          on its side and I'll be able to call on you.

11                       Michelle?

12                       MS. LEE:  I speak from the software industry  
13          perspective.  And, from my perspective, the notice function  
14          of patents is not well served at all.  That's primarily  
15          because many of the software patents are very difficult to  
16          understand in terms of meaning and in terms of the scope of  
17          their boundaries.  This is due to a couple of factors.  One  
18          is in the software industry, there is a lack of a common  
19          vocabulary.  And also a lot of the software patents fail to  
20          teach of the invention itself.  So I'd like to go into a  
21          little bit of detail on those two points and particularly  
22          the lack of common vocabulary.

23                       In contrast to fields such as chemistry, and

1 certain areas of electronics, which have a greater degree of  
2 shared common vocabulary and terms with well-understood  
3 meaning, such as a carbon atom, resistor, a DRAM, the  
4 software industry generally consists of abstract concepts  
5 that achieve a certain functionality. And it's up to the  
6 software programmer to make up a term to describe that  
7 functionality.

8 So when I say, for example, that this is a  
9 knowledge engine, or a modified software identifier, there's  
10 no commonly-understood meaning. And oftentimes when you  
11 look to the written description there's no support in the  
12 written description. So you are left with are the very  
13 broad terms that do not shed a lot of light on the meaning.

14 Secondly, in chemical fields, if you provide a  
15 chemical equation, or a circuit diagram, or a mechanical  
16 drawing, it's pretty clear what is taught in those  
17 situations. But for software patents there's little to no  
18 teaching of the invention.

19 Functional claiming is very prevalent in software  
20 patents and code is not required. And at best you get a  
21 high level flowchart. And most software engineers don't  
22 turn to software patents to determine how to write a bit of  
23 code. You might look to a software patent to determine what



1        your competitor is doing generally, but not how to program  
2        it or to code it up. So there's not a lot of teaching going  
3        on in that space. And so in those two regards there's quite

1 engineers, or scientists who are reading patents -- there  
2 are the difficulties that Michelle describes in  
3 understanding technical terminology. You know, district  
4 court judges are typically not scientifically or technically  
5 trained. It wouldn't surprise us that it takes them a while  
6 to figure out what particular technical terminology means.  
7 So that's clearly an issue but not a surprising issue.

8 The thing I would suggest as a surprising issue to  
9 us, and we can see this, you know, when we look at *Markman*  
10 hearings, when we look at the process of construing claims  
11 in court, is that that's not what the fighting is usually  
12 about. All right, we now have a long series of cases where  
13 people spend millions of dollars fighting over terms like,  
14 "through", "the", "a", "to", "beside."

15 So aside from the technical problems that you  
16 would expect to vary from industry to industry, and you  
17 expect to be a problem in a patent system as being  
18 administered by -- at least partly administered by people  
19 who aren't technical experts, there's the problem of  
20 indefiniteness and lack of notice, due to indeterminacy  
21 about what you would think would be very common terms that  
22 even a non-technically trained judge would be able to deal  
23 with.

1           Now part of that is just language, right.  
2           Language is imprecise. That's why we have law schools,  
3           that's why we train lawyers. Lawyers are good at playing  
4           word games for their clients. That's what we teach our  
5           students to do. So, again, that wouldn't be terribly  
6           surprising. But the very nature of the claims I would  
7           suggest contains a fundamental problem, which is we often  
8           like to compare patents to the meets and bounds of a  
9           description of physical property. Real property is the  
10          usual analogy.

11                 When we deal with patent claims, though we are in  
12          quite a different situation, right. We're not talking  
13          about, first of all, language that has a fairly socially-  
14          stable, determined meaning, like you might have survey data  
15          or GPS data, or some other way of describing physical  
16          property. You're not dealing with a stable and  
17          deterministic type of thing, you know, res, like a piece of  
18          physical property.

19                 You're dealing with an invention, right, which may  
20          have lots of embodiments, some of which may not have even  
21          been thought of by the inventor at the time the claims were  
22          drafted. So there's an inherent problem of notice within  
23          the concept of peripheral claiming itself that we say is now

1 central to our patent system, that is in addition to the  
2 problems that Michelle has already started to point out to  
3 us.

4 MR. COHEN: How about Vern?

5 MR. NORVIEL: So I only work in the healthcare  
6 industry. All I do is start small biotech companies. So  
7 that gives you my bias. And since we're in Berkeley, I  
8 guess I can take a radical view maybe that perhaps things  
9 aren't too terribly broken.

10 And the reason I say that is -- and I think it's  
11 very important that we not try to fix things that aren't too  
12 terribly broken -- we have a healthcare system in the United  
13 States that does produce innovation. It is by far the  
14 leading innovator in the world. Biotech companies are  
15 financed.

16 I was at Johns Hopkins University yesterday  
17 working on companies that are starting. They have -- one of  
18 them has a stem cell technology to repair Achilles tendons.  
19 The other has a microfluidic technology to help pick the  
20 right drug for a cancer patient. These are extremely  
21 important things.

22 In the healthcare industry there is zero tolerance  
23 on the part of investors and partners for patent

1 infringement. So I live in an industry where we must figure  
2 this out or money doesn't flow. And in fact we can figure  
3 this out and companies are financed routinely.

4 I think that maybe there are some differences  
5 perhaps in the way the system is implemented, is what my  
6 assertion would be. In healthcare in the Patent Office,  
7 things like written description and enablement are extremely  
8 rigorously enforced. The laws have been there for a long  
9 time. There are lots of foggy situations in biology, but  
10 the examiners don't let you get away with it.

11 So the patent system, -- when we go through and  
12 start a company we can go through thousands of patents and  
13 we can figure out if there's a problem or not. And  
14 investors will put money in based on that.

15 So we need to be very careful, I think, if we go  
16 tweaking the system too much, to make sure that we don't  
17 throw out a very important part of our system. It's  
18 creating great healthcare innovation. The Silicon Valley  
19 high-tech investment actually was beaten out by biotech  
20 investment for the first time a year or two ago. So it's  
21 creating a great number of jobs in our system, especially  
22 here in the Silicon Valley, San Diego, Boston, places like  
23 that. So I think we need to be very careful not to throw



1           So from that perspective -- and then the Federal  
2           Circuit is doing maybe 80 to 120 claim constructions maybe  
3           in a year, right. And so, when you start with 1.7 million or  
4           1.8 million patents, and you are down to these kinds of  
5           levels of disputes, you might say to yourself that many  
6           patents might actually be drafted reasonably well and they  
7           might actually provide pretty good notice, at least in  
8           general terms, which might suggest that radical fixes might  
9           not be needed and, in fact, may be something more marginal  
10          would be appropriate.

11           On the other hand, I think some of those figures  
12          at least suggest there might not be a major notice-function  
13          problem with many patents. But, on the other hand, I think  
14          conceptually some conceptual work has shown and, I think  
15          kind of convincingly, that there are lots of incentives for  
16          patentees to at least be vague, if they can be vague, and to  
17          maybe not spend lots of money trying to get patents and not  
18          trying to get expensive patents, if you will. And, in fact,  
19          maybe the incentives are aligned in a way to try to get lots  
20

1           And then I think this is a little bit amplified  
2           from maybe another conceptual perspective, which is to say,  
3           I think -- particularly since the *Phillips* case, claim  
4           construction law has just sort of moved in the wrong  
5           direction, in a way that sort of is going to cement an  
6           approach to claim construction that's going to lead to,  
7           potentially, at least in the future, more claims that  
8           present themselves to judges and ultimately to the Federal  
9           Circuit, where there are sort of equally plausible  
10          interpretations for both parties.

11           MR. COHEN: I think I'm hearing lots of different  
12          elements. And perhaps to draw it together, would the rest of  
13          you -- as you comment on the notice function, in general,  
14          you might want to think about helping us understand if there  
15          is a notice problem, what is its nature? Is it -- are we  
16          talking about an inability to adequately identify and  
17          evaluate relevant patents because of their sheer number?  
18          We've heard a little bit of that. But we've heard a lot more  
19          in the discussion to this point already about an inability  
20          to understand the likely scope of existing claims. And I  
21          think I've heard a bit of a hint of talk about an inability  
22          to project the likely range of claims that would flow from  
23          an application. Is it one of these? Is it all of these?



1 Is it something else? Think about that if you address these  
2 questions, as well.

3 Let's try Daralyn, over here.

4 MS. DURIE: Thank you. I come to this from the  
5 perspective of a litigator who represents clients in a wide  
6 range of art areas, including pharmaceutical and  
7 biotechnology, as well as software and information  
8 technologies. And I do think that there is a significant  
9 difference, depending on the industry that you are in and  
10 how you perceive the problem.

11 In my experience in the pharmaceutical and

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1 product, looking at one company in a subset of their  
2 portfolio runs into the hundreds of thousands of dollars.  
3 Extrapolating that out and trying to imagine the cost  
4 associated with performing comprehensive patent clearance

1                   MR. COHEN: I'm going to try to get everybody in  
2 on this first problem. Why don't we turn here to Jason?

3                   MR. SCHULTZ: Okay. Thanks. So I think everyone  
4 has been identifying some of the annoying issues around  
5 notice, in particular, information costs and transaction  
6 costs, right? I mean, how much does it cost to do a patent  
7 clearance, or can you tell what your competitors are  
8 essentially patenting? You know, are the claim construction  
9 issues so burdensome that you might settle the case.

10                   I mean, so actually I think it's interesting to  
11 think about what kind of metrics evaluate notice. If there  
12 aren't a lot of disputes, that might be a good thing for  
13 notice, as a value there or it might be a bad thing.  
14 Because if I can figure out what it costs -- it's going to  
15 cost me, or if I can figure out if I infringe, the burden of  
16 the information transaction costs are so high, I might  
17 settle the case even though I think I have a good case.  
18 Right.

19                   So I think the metrics that we evaluate notice on  
20 are important to think about in both the information and the  
21 transaction costs space. One of the things that we do at  
22 the Samuelson clinic is we represent people who can't afford  
23 lawyers. So we take on people who are non-profits, or very,

1 very small pro bono cases, who actually have patent issues.  
2 They exist out there. They run websites. There are  
3 nonprofits trying to create medical devices. There are, you  
4 know, educational institutions who get threats about  
5 distance learning from companies that claim to patent that.  
6 And these people are in a very different situation than the  
7 ones who can litigate. I mean, the ones who can litigate  
8 aren't in a great situation, necessarily, but it's a  
9 different situation.

10 And so I want to focus on two things that I think  
11 are important to think about. One is, is this information  
12 transaction cost issue, in particular as a temporal matter?  
13 When do you have to assess that issue? Right. So do you  
14 assess it from a clearance freedom-to-operate point of view?  
15 Someone comes to you, wants to create a product, or wants to  
16 do something in those. But there might be patents out  
17 there. Do you assess it at the point when they get a cease-  
18 and-desist letter? And do you assess it then later when  
19 you're maybe in litigation, or if you're thinking about a  
20 re-examination or an opposition in another country,  
21 something like that?

22 And I think the notice problem is a little  
23 different at each stage. I think the moment you encounter,

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1 variety of areas.

2 A unique aspect of our practice is that we work in  
3 both the life science and in the information technology  
4 area. So we see the differences in those areas daily. In  
5 one area where there is a huge difference is in the notice  
6 requirements.

7 One example of that is if you're looking to do a  
8 product clearance search or a freedom-to-operate search.  
9 And when you -- when you look at that, there's three main  
10 areas that we look at. The first one is scoping the search.  
11 The second one is dealing with the lexicon, as Michelle  
12 mentioned earlier. And then also dealing with some of the  
13 limitations in publications.

14 Let me just go into a little bit more detail in  
15 terms of the differences between the life science and the  
16 information technology area, when you're trying to scope a  
17 product clearance.

18 In life sciences, that Daralyn mentioned earlier,  
19 the scoping of the search is much easier to do. There's  
20 typically a situation where you're dealing with a handful of  
21 patents that are dead on your particular product, at least  
22 when you're talking about chemical compositions. It does  
23 get more difficult when you're dealing with processes.



1           But if you have a diagnostic or a specific  
2 chemical or a DNA sample, a snippet, that you're dealing  
3 with, you can do a pretty detailed search and be confident  
4 that you're finding those patents that are right on top of  
5 what you are doing.

6           Kind of a with a nod to old-time Chicago voting,  
7 you want to do searches early and often. And they do that -  
8 - life science companies typically do that because of a  
9 number of reasons, not the least of which is the FDA  
10 clearance and the clinical trials. You're spending millions  
11 of dollars developing this product and bringing it to  
12 market. You want to make sure throughout every step of the  
13 process that you're catching anything that has come out in  
14 the interim between searches.

15           In contrast, in the IT area, a single product can  
16 have hundreds of different features and each of those  
17 features can trigger hundreds of patents that are of  
18 interest.

19           One example, if you take a portable music or a DVD  
20 player. That particular product, if you're going to bring  
21 that to market, you'd have to deal with power supplies,  
22 displays, user interfaces, amplifiers. If you're -- you'd  
23 have to be doing some kind of decoding. So you would be

1 working with the MPEG standard, maybe the MPEG-4 standard.

2 We do license clearances for the MPEG-4 standard.  
3 There's over 200 patents that are central just to that one  
4 standard. So with one feature in one product, you're  
5 dealing with 200 patents. You add wi-fi capabilities to  
6 that, you're looking at another hundred-plus patents.

7 So a simple, reasonably simple product, like a DVD  
8 player, you're looking at upwards of 500, maybe 1,000  
9 patents that are of interest.

10 We did -- I'll generalize it a bit, but we did a  
11 search for a casino company looking for a new casino  
12 product. And we had to scope the problem. We had to  
13 identify the number of features that they wanted us to  
14 search, because there are too many in a new product to  
15 identify.

16 Ironically, this casino company wanted 21 features  
17 for us to look at. We looked at that and we then had to  
18 scope not only the features but, because of the lexicon  
19 issues, we have to figure out what the best way was for us  
20 to do the searches.

21 You can do some general patent searches with  
22 regard to the terms, but there's so many different ways to  
23 describe similar features, in particular in the IT area,

1           that one of the strategies we employed was to take a look at  
2           their major competitors.  And we tried to focus it on that.

3                         One of the problems we ran into, which I think

4

1 slides or something you thought would illustrate this.

2 DR. MENELL: Yeah, it's --

3 MR. COHEN: That would be helpful. But we are  
4 trying to keep this to a discussion format as much as  
5 possible.

6 DR. MENELL: I agree, and I will try to keep this  
7 very concise. And in fact a lot of the elements, I think,  
8 are on the table. So the idea in sort of an academic frame  
9 is to try to come up with a lexicon for characterizing the  
10 nature of this problem. And I do think it is a problem  
11 that's -- that's not fully mapped out in terms of the  
12 classic reference point, which is: What are the market  
13 failures that patent law and, in particular, the notice  
14 features are attempting to deal with?

15 The classic problem for which patent law exists is  
16 to provide for appropriability. And I won't dwell on that,  
17 but the problem has been commented on throughout this two-  
18 day conference, is that we want to provide incentives. And,  
19 when innovations are easily observable, then it's going to  
20 be important that there be some extra-market way of  
21 appropriating.

22 Now in thinking about the problem for this panel,  
23 it strikes me that in solving this first externality

1       problem, we're creating a second externality problem, which  
2       I'll call a notice externality. And the characteristics of  
3       this externality is that someone who's trying to build a new  
4       business or create a new technology has a very high  
5       overhead, because of the problems that have been talked  
6       about in the context of particularly IT.

7               And I would say that it really, you know, is a  
8       clearance problem. And you could characterize other areas  
9       of assets as having clearance problems, but these are quite  
10      distinctive. And they're distinctive in part, and I don't  
11      think it's just a vocabulary issue. I agree completely with  
12      what Michelle and Daralyn commented on. But chemistry maps  
13      more like a two-dimensional space.

14             We've got periodic tables. We've got molecular  
15      structures. Once we move outside of those areas, it's not  
16      simply vocabulary. There -- I mean we would have to make  
17      dramatic advances in how we understand software and  
18      innovation relating to these very abstract conceptual  
19      innovations in order to really have parity with these other  
20      areas.

21             So we can talk about direct costs, and Jason and  
22      others have talked about that, really the straightforward  
23      search and validity assessments. And then there is this

1 cost which John just referred to. It's the unknown-claim  
2 cost. The cost where you can't easily find the art.

3 So we could -- I'm going to use the metaphor that  
4 Dan began with, which is the real estate metaphor. Okay.  
5 So if my neighbor and I are deciding on what to do with the  
6 border between our properties, we can for about \$600 hire a  
7 surveyor who's going to come and give us what is a very  
8 reliable measure of where a boundary fence can be built.

9 But if we compare that to intellectual space, the  
10 footprint of ideas -- and I've represented that with a lot  
11 of lightbulbs -- it's not two-dimensional, it's multi-  
12 dimensional in ways that trigger these costs. And we see in  
13 the different systems different ways in which we try to  
14 manage those search costs. In the land context, we do it  
15 through registries. In the patent system we've got now  
16 searchable indices. We have Google's product, with have the  
17 Patent and Trademark Office product. But those are very  
18 rough tools in terms of being able to do -- I mean what we  
19 would like is to have another Google product, is Google  
20 maps. Okay.

21 We want to have really taxonomical advances. And  
22 if we look over in Europe, I think they put more emphasis on  
23 trying to come up with ways of finding it. But, you know,

1           this is an area that the Patent Office and people concerned  
2           with this problem should be very focused on. I mean we  
3           should have much more science of the taxonomy of patents ifET1.00000

1 evaluate, you know, which argument they found more  
2 persuasive and to estimate their confidence level: High,  
3 medium, and low. Okay. So on two of them the judges had  
4 either high or intermediate confidence level. And, among  
5 the three panels, they split evenly. So they were highly  
6 confident, and they came out differently. On the third,  
7 which is a very complicated technology, they had low  
8 confidence and they also split evenly.

9 So, you know, that tells you -- I mean part of the  
10 reason we did it was just to help the judges realize that  
11 you shouldn't feel badly when you get reversed by the  
12 Federal Circuit. When you do this exercise, you're going to  
13 see that it is a highly indeterminate -- it's really risk  
14 management. This is not defining boundaries. This is  
15 helping clients manage risk, which is a very difficult  
16 problem.

17 So what are some things we could do about this?  
18 And I just will put up a menu of issues and maybe --

19 MR. COHEN: And we will probably discuss most of  
20 them as we move forward.

21 DR. MENELL: Yeah, although some of these are a  
22 little crazy. You know, I'll put this out here, because I  
23 came out with these ideas really using the economic frame.



1           How do economists talk about internalizing these kinds of  
2           problems or reducing these externalities?

3                         Well, one thing, the economist always come up with  
4           first, which is always the least feasible, is pricing it,  
5           taxes. But we've already heard -- even yesterday, we heard,  
6           I think it was Marshall Phelps who said, you know, maybe we  
7           should have differential incentives here.

8                         Well, one way is that the application fees could -  
9           - and I know people out here will say this is ridiculous,  
10          but it's just an idea. We could actually have different  
11          application fees in different arts, based on some rough  
12          metric of what we think these costs are. And that I think  
13          would have a deterrent effect. If you're going to file a  
14          patent in an area that you're not really sure is worth  
15          filing, well, you should bear some of the costs you're going  
16          to impose on other people who have to navigate that patent.  
17          Now that's very hard to do, but at least one thing that  
18          we've heard here is that that price could very feasibly --  
19          you know, I mean we could make a categorical distinction  
20          between chemistry and IT.

21                         Now one of the things we could do with those taxes  
22          -- or from other sources, is we could subsidize innovations  
23          in taxonomy. I mean, the classic subsidy solution and, it

1       seems to me, we ought to -- given the problems that this  
2       panel has already identified, we ought to pay money to help  
3       companies reduce -- this is a problem where government can  
4       do it better than individuals. I mean there are some  
5       private solutions. I'm sure there are title search  
6       companies that, you know, are emerging and provide. But  
7       there is, as Daralyn explained, you know, when a company  
8       comes to you, you're still going to have to do a lot of the  
9       legwork yourself -- and if there were some ways of doing it.

10               Then a lot of the issues, I think, have at least  
11       some benefit, if you improve examination, that's a general  
12       solution, obviously higher quality and higher speed. Part  
13       of the problem is given that you can't even know about some  
14       of these patents, and so after your --

15               MR. COHEN: That is a topic we will return to.

16               DR. MENELL: Okay.

17               MR. COHEN: So if --

18               DR. MENELL: I won't come back to that.

19               Opposition, bounty systems, peer to patent. These  
20       are all things.

1 constrained patentability, particularly in the software arts  
2 and business methods, would reduce this problem, given that  
3 a lot of the problem is focused in that area.

4 What Dan mentioned, this idea of peripheral versus  
5 Jepson-type claiming, I think makes a difference, because it  
6 helps to better define what people are claiming, rather -- I  
7 mean, peripheral claiming is, I think, adding some of the  
8 vagueness here. There are some doctrines, description  
9 doctrines, indefinite doctrines, that can play some role.

10 Now here is -- I think is a somewhat outrageous  
11 proposal. But I kind of like it and will be interested. I  
12 don't know why we have 18-month delay on publishing.

13 Now one of the reasons that I've heard is that the  
14 Patent Office is so slow, that that's a reason to give  
15 companies a little more flexibility. But in an ideal world  
16 we wouldn't have a delay in publishing applications. One of  
17 the places -- one of the costs that you have from delaying  
18 publication is when you get into litigation. You know, a  
19 lot of the battles over the protective order and how you're  
20 going to deal -- I mean, if someone thinks that they're  
21 claiming something, maybe we should ask why they should be  
22 able to keep that secret for some period of time. Why  
23 should that --

1 MR. COHEN: Again a good idea, but what --

2 DR. MENELL: Okay.

3 MR. COHEN: -- I think --

4 DR. MENELL: Okay.

5 MR. COHEN: -- we should get to --

6 DR. MENELL: Okay. Doctrine of equivalents,  
7 another area that introduces vagueness and the independent  
8 invention defense, or limitation of remedies, have the  
9 benefit, in this context, of reducing the problem from  
10 another direction. So it basically gives companies that  
11 follow a certain procedure some greater ability to operate  
12 in a space that has the properties we've talked about.

13 I'll leave it there.

14 MR. COHEN: Thank you. You've set out many of the  
15 topics that we'll be touching on throughout this -- today,  
16 plus a few things that I don't think we would have thought  
17 of. So that's very helpful.

18 I think maybe, Kevin, you haven't yet contributed?  
19 And then we can move on.

20 MR. RIVETTE: Oh, I never contribute.

21 MR. COHEN: Let's get everybody on the -- with  
22 their views, first.

23 MR. RIVETTE: Assuming facts not in evidence.

1                   So I think, from my perspective, one, I would go  
2 back to what Vern started us off with: Yeah, we got  
3 problems, yeah, there are issues. But let's not throw the  
4 baby out with the bathwater. The system works.

5                   If you take a look at what Peter was just talking  
6 about, with the issues of the messiness of the process.  
7 Well, you know that the whole legal system is messy. We  
8 don't have a system that's precise in that regard in the  
9 legal system.

10                   With regard to notice, I think we've probably got  
11 more notice now than we've ever had in -- in the whole  
12 system. I actually went around the world in the early '90s  
13 and picked up all of the patent data and created the first  
14 patent database. And with that, we use natural language and  
15 semantic analysis and visualization to actually avoid some  
16 of the taxonomy problems. But I do agree with you, if you  
17 want to funnel any money to the Patent Office, I'm 100%  
18 behind you. We need every single penny we can find.

19                   I think that the -- you know, the issues around  
20 claims, definitions and structures, we should probably touch  
21

1           actually has to be something that we fix. But I guess  
2           overall I look at it and, yes, it's been tough to do  
3           clearances. It's always been tough to do clearances. All  
4           you got to do is go back and look at steamboat patent wars,  
5           sewing machine wars, you know, electrical motors, when  
6           everything had to be done with the -- going to the shoes and  
7           looking through every single patent.

8                        So I think this is a messy process, but I don't  
9           see a process that's -- it's better at this point in time.  
10          So I think there are some things we can get done. But I --  
11          I do agree with Vern, throwing out the whole system, or  
12          radically shifting it, is probably going to cause more  
13          problems than it's worth.

14                       MR. COHEN: Okay. We've heard an array of  
15          thoughts on the issue. And let's try to take it a little  
16          further at the level of generality and then move into  
17          individual issues.

18                       I guess what I want to ask is if there is a notice  
19          problem, or to the extent that there is a notice problem, is  
20          it something that's best addressed up front, by making  
21          claims and potential claims during the prosecution process  
22          better understood, more easily found, and better understood,  
23          or is it something that's better addressed, after patent

For The





1           So, as you say, where do you address that?  
2           Obviously, I have an opinion on that. I've, you know,  
3           written a fair amount with Mark Lemley about this. In fact,  
4           we have a book which is now available at fine booksellers  
5           everywhere. And the title is *The Patent Crisis and How the*  
6           *Courts Can Solve It.*

7           And the question, going back to Peter's economic  
8           framework is, can you institutionally -- do you want someone  
9           to try and figure this out before the fact? You know, ex  
10          ante, which is what the Patent Office examination process  
11          tries to do, or do you want to try and sort it out ex post,  
12          after the fact, which is what the courts and maybe something  
13          like a post-grant opposition, type of procedure would do.

14          Our view is that you can only sort it out after  
15          the fact. First of all, for practical reasons. Lee pointed  
16          out that, you know, we don't fight about most patents,  
17          because most patents aren't worth fighting about. So there  
18          needs to be some sorting process to figure out which ones  
19          you want to fight about.

20          And, number 2, you need to figure out where things  
21          have gone, right. That's much easier than figuring out  
22          where things are going. Patent examiners are not crystal  
23          ball gazers. The Patent Office doesn't see a large part of

1 the patent system, which is the infringement and analyses  
2 that we've talked about.



1 litigation is a very, very expensive way, far on down this  
2 road. You hit inadvertent infringers, right? Businesses  
3 have invested a lot of money in providing the product into  
4 the market to stream. And to deal with that issue, in  
5 litigation, after a product has launched, is tremendously  
6 costly for society, plus it does a disservice to the public  
7 and to subsequent inventors, who come along later on, who  
8 claim inventorship over an aspect that the first inventor  
9 claimed they had coverage for, but there wasn't quite enough  
10 detail in the patent, to begin with. So I think early  
11 notice -- fixing the problems early on for notice is  
12 critical.

13 MR. COHEN: Daralyn.

14 MS. DURIE: Well, I don't disagree with any of  
15 that. But I come to this from the perspective of a  
16 litigator, who often gets brought in after the dirty deed  
17 already has been done. So while I agree very much with the  
18 need to consider the issues ex ante, I want to talk about  
19 some of the things that come up after the fact.

20 I want to start by saying that, while it is true  
21 that litigation in general is messy, I think the messiness  
22 of patent litigation is different in kind, not merely  
23 different in degree. Patent litigation is, we all know,

1       extraordinarily expensive. And I think that the amount of  
2       money that people are willing to invest in the enterprise  
3       speaks volumes to the uncertainty of the outcome and its  
4       unpredictability. That unpredictability is manifest,  
5       particularly in the area of claim construction. And it's  
6       not just a function, as was indicated, as sort of the need  
7       for language to evolve. But I think it's a function of the  
8       fundamentally poor fit between language, on the one hand,  
9       and what it is that we're trying to describe, on the other.

10               I was a graduate student in comparative literature  
11       before became a lawyer. I often say that was the best  
12       possible training for claim construction. And I'm not  
13       joking, because I think it is the very rare case where there  
14       is not a potentially dispositive claim construction issue  
15       that absolutely could go either way and where you could not  
16       find a judge to go either way. And I think it is less true  
17       in the chemical area, because if you're talking about a  
18       formula for a molecule, you know what you're talking about.  
19       There is a tight fit there between the chemical structure  
20       and the thing you're trying to describe.

21               When it comes to the English language, and if  
22       you're trying to describe this, there's a much greater  
23       amount of imprecision in the fit between the words and the

1            thing that you're trying describe.

2

1           If you're clearing a technology like, say, DNA  
2           amplification, or sequencing technology, the clearance  
3           studies are very massive. In amplification or sequencing,  
4           you're probably talking 8,- or 10,000 patents that you have  
5           to clear to start a company.

6           So the issues actually are the same in life  
7           science. I -- I disagree with that to some extent. And the  
8           terminology is extremely rapidly evolving. I would say,  
9           again, to be honest, more rapidly than in software. You  
10          know, human adult stem cells were invented 12 months ago.  
11          And there's already proliferation of technologies around  
12          that. So I disagree with that assumption.

13          That said, I still believe that the difference is  
14          that we have a Patent Office both here and in Europe, I  
15          would say, where the examiners are extremely well-educated.  
16          They don't let you get away with anything. Most of them are  
17          Ph.D. level scientists. They actually do understand what's  
18          going on in the world.

19          The industry actually makes an extremely strong  
20          effort to try to even keep the examining corps well  
21          educated. There are seminars routinely in the Patent  
22          Office, in life science, where a scientist will go back and,  
23          for example, talk about stem cell technology so as to make





1 massive change.

2 MR. COHEN: John.

3 MR. McNELIS: Real quick. The issue as to whether  
4 this should be done upfront or after-the-fact -- as we've

5

1        what I think, perhaps a place to start would be with various  
2        mechanisms that might improve notice from existing claims.

3                    And the first one I'd like to take up is  
4        indefiniteness, which is something that's been receiving  
5        greater prominence in recent months. My overall question is  
6        what's the appropriate reach for the indefiniteness factor  
7        in patents? Does it have application for all forms of  
8        ambiguity that affect breadth? In general, is it  
9        appropriate for addressing issues of overbroad claims.  
10       Anybody want to start?

11                   Lee.

12                   DR. PETHERBRIDGE: So I think that indefiniteness  
13        is a tool that probably works better in the hands of the  
14        Patent Office than it does afterwards. I think, for some  
15        reasons that Dan suggested -- and I think it's maybe his  
16        opening comments, which is that, you know, attorneys at law  
17        school learn how to create ambiguity in documents when  
18        needed. And I think what can happen is that if you have a -  
19        - say a strict indefiniteness requirement that exists after  
20        patents issue, you know, you can't change the scope of  
21        claims and you're basically stuck. And people will be able  
22        to -- to create ambiguity, create situations that appear --  
23        or create the appearance of indefiniteness. And I think

1 that once a patent issues, you have to, of course, be fairly  
2 liberal with respect to tolerating some amount of ambiguity  
3 without invalidating patents for indefiniteness.

4 On the other hand, when you're at the Patent  
5 Office you can amend the claims. They can make  
6 representations in the prosecution history about the meaning  
7 or scope of terms and limit things in ways that provide the  
8 flexibility that doesn't exist preissuance. So I think  
9 indefiniteness is a valuable tool and one that maybe could  
10 be developed more. But my own sense of it is that I  
11 wouldn't like to see it applied too much more strictly than  
12 it is by courts at this particular time.

13 MR. COHEN: Jason

14 MR. SCHULTZ: Yes. So I just have a brief comment  
15 here. I think whenever -- so I would agree, generally, that  
16 we can do things both in the Patent Office and in later in  
17 the courts and other stages, such as administrative  
18 post-grant.

19 But the key for me in the Patent Office. I mean  
20 just given everything that we've all heard about examiners -  
21 - the stress they're under and everything -- is can we  
22 increase the information and lower the information costs  
23 without increasing their transaction costs and the

1 applicant's transaction costs.

2           And I think when it comes to indefiniteness the  
3 question of reasonable interpretations, I think, is a high  
4 transaction-cost question, right. I mean figuring out  
5 what's reasonable, what's not. I mean I think  
6 indefiniteness only goes so far. But I do think that the  
7 problem there is either inconsistency or lack of  
8 definiteness.

9           So I think getting definitions, you know, making  
10 sure there are definitions where there need to be  
11 definitions and also locking in the applicant or the  
12 inventor to those definitions so they can't later change in  
13 context.

14           I mean there's some flexibility. I agree, there's  
15 some things you're just not going to define as a periodic  
16 table. But I think when -- for instance, in a notice of  
17 allowance, when it's a key element of a claim that is over  
18 the -- you know, distinguishing the prior art. I think  
19

1 DR. MENELL: Well, I'm going to tie this in a  
2 little with the theme of the last question, which is the  
3 sort of ex ante versus ex post. And I think this is a good  
4 illustration of part of the challenge. I'm going to take  
5 all of the above, as many have. But in this area I can say  
6 from a lot of experience that what you're getting from  
7 district judges is basically a novice. I mean in certain  
8 districts you're going to get repeat-player judges, but most  
9 judges are not going to have nearly the experience.

10 And a doctrine like this I really think requires,  
11 you know, some spectrum of experience. And so I think the



1 of the issues that are concerning applicants. Most of the  
2 applicants found that they got a lot better result, and what  
3 we found was that we got a lot better patent at the end of  
4 it, if we actually had a pre-first office action interview.  
5 So the applicant would sit down, they'd get to your point.  
6 Applicant would sit down and talk to the examiner. Because  
7 once we get into that process, you know, people take  
8 positions. But if they can sit down to figure out what the  
9 invention is, that seemed to be going well. We've done a  
10 first trial of that. And everybody wants to go further with  
11 it.

12 On the -- I think there are a number of issues  
13 that we could do at the Office. We could actually start  
14 requiring, number one, that the patents come in  
15 electronically. Right now they're coming in electronically,  
16 only in PDF, most of the time. I think that the hue and cry  
17 out of the AIPLA and other practitioners was pretty loud.  
18 But I think we should really think about bringing it in in a  
19 textual format. I think we should have small apps inside  
20 the office that actually review these for statutory  
21

1 it would also add to consistency throughout the application.

2 So these are the sorts of things that I think we  
3 can actually do at the Office that would have significant  
4 impact on the quality coming out.

5 One of the things we did with the last meeting of  
6 the Advisory Committee -- we had it open to the public, and  
7 we discussed quality measures. I think that the office  
8 absolutely should be looking at third-party, independent  
9 reviewers of quality.

10 So to the points here of: Why aren't we talking  
11 to the judges? Why aren't we having a system where we  
12 review every single patent that gets held invalid? I mean,  
13 it's a real simple problem. I mean, it's a decision tree.  
14 Was it held invalid it because he found something in some  
15 library that we're never going to find? Okay, fine, you  
16 know, that's not the Patent Office's problem.

17 However, if we find that we are misinterpreting  
18 the law, or that there weren't statutory requirements met,  
19 we should be looking at that. We should find a way to put a  
20 connection back into the system to correct it. We don't  
21 have that right now. We don't actually review our own Board  
22 properly, our opinions. And we don't review other patent  
23 offices. So there's got to be a consistency worldwide, not



1 just with our office. And I think there are ways to do  
2 that.

3 So you wanted some specificity. There's some  
4 specificity.

5 MR. COHEN: I'm going to call on Michelle. But as  
6 I do that, I'm going to try to give a little bit more meat  
7 to the indefiniteness issues so that you can all be thinking  
8 about it as Michelle is responding. And that's the fact  
9 that in court, it's often been viewed as a doctrine that  
10 tries to identify whether a claim is insolubly ambiguous.  
11 And yet more recently at the PTO and then in their *Miyazaki*  
12 opinion, but from the Board they talked in terms of an  
13 indefiniteness problem if a claim is amenable to two or more  
14 plausible constructions.

15 Where do you think we should be heading? Is it  
16 appropriate to have different standards in the PTO and in  
17 the courts as they review that? Think about that.

18 Let's get Michelle's response to what was already  
19 on the table.

20 MS. LEE: So I just actually have a very brief  
21 follow-up on Kevin's point. I was intrigued by his notion  
22 of a definitional page because in some sense that would help  
23 tremendously. But currently, right, the terms that are used

1 in the claims should have support in the written  
2 description.

3 MR. COHEN: Right.

4 MS. LEE: So the question is: If you put it in a  
5 separate section of the patent, does it make the examiners  
6 and the applicants really define the terms are being used?  
7 And if the answer is yes, I'm all for it. But currently,  
8 under the system, you should be doing that, right? You  
9 should be defining the terms, so --

10 MR. RIVETTE: Well, you -- the problem I've seen  
11 in them is they define the terms, but as the application  
12 goes through multiple stages, those terms get muddy. They  
13 have --

14 MS. LEE: Right.

15 MR. RIVETTE: -- four or five different  
16 definitions in there, slightly different, not 100 percent  
17 different. And sometimes they aren't even there properly.

18 MS. LEE: Right. So then could you amend the  
19 definitions as you evolve, or would that be changing?

20 MR. RIVETTE: The spec?

21 MS. LEE: Yeah.

22 MR. RIVETTE: I think you've got to do it to begin  
23 with. But then you're going to, you know, potentially amend

1           it in the actual file wrapper. I mean, that's how, you  
2           know, the interpretation thereof. And that's the intrinsic  
3           versus extrinsic. But it gives you a starting point.

4                       MS. LEE: Fair enough.

5



1 construction. Because if you have a claim construction  
2 regime like we have now, that I think is promoted by the  
3 *Phillips* opinion, which is you can do claim construction  
4 however you want in any particular case, and all that really  
5 matters that you thought hard about it, and the Federal  
6 Circuit agrees with you at the end of the day. That's not  
7 helpful, I think, to developing the law and evolving the law  
8 in a way that sort of allows for claims and the doctrines of  
9 claim construction to be more effective at producing clearer  
10 and more reproducible claims, going forward.

11 Now, to suggest -- I don't mean to suggest ever  
12 that you can get perfect clarity or there'll never be an  
13 ambiguity in claims. But I think the process of doing claim  
14 construction can be improved. And I think *Phillips* is a  
15 step in the wrong direction and, in fact, cements the kinds  
16 of problems that lead to the indeterminacy that you get in  
17 sort of the average patent case, where you have equally  
18 plausible interpretations on both sides, by the individual  
19 parties, that aren't resolved by the law and actually just  
20 have to sort of be picked at the end of the day by decision-  
21 makers, who are right because they're final, for that  
22 reason.

23 MR. COHEN: Let me push you a little farther on

1       that, with your views on *Phillips*. Is it a problem with the  
2       uncertainty as to how we use intrinsic evidence? Is it a  
3       problem with uncertainty as to how we use extrinsic  
4       evidence? What are you getting at?

5               DR. PETHERBRIDGE: Well, I think -- sure. So I  
6       can build on it a couple of ways. I mean, I think in some  
7       respects *Phillips* presents a problem because it discourages  
8       the use of extrinsic evidence in a way that might be  
9       unhelpful, because it might be in those kinds of situations,  
10      situations where you sort of have a lot of ambiguity or  
11      maybe where resort to extrinsic evidence might be more  
12      helpful.

13             But more than that, right, I think the real  
14      problem with *Phillips* is that *Phillips* doesn't say how to  
15      use intrinsic evidence, or how to use extrinsic evidence.  
16      *Phillips* just says, "Look at the patent, think hard about it  
17      and think carefully and reach the right decision." Right,  
18      and I think one of the things that the Federal Circuit was  
19      doing before *Phillips*, whether it had gotten to the right  
20      place or not, is I think a matter of debate. But it was at  
21      least moving to a place where they were developing a  
22      framework for how to go about doing claim construction, how  
23      to give weight to different portions of the specifications



1 definition section. So I think we can learn from that a  
2 little bit. I do think that -- I would point out I think  
3 that there actually are courts, in a sense, that are even  
4 more rigorous and more careful, which I refer to as the  
5 "Court of Sand Hill Road," which is when you're about to ask  
6 one of these VCs to cough up tens of millions of dollars,  
7 they look at this extremely carefully. And if there are two  
8 possible interpretations, you probably aren't going to get  
9 your money.

10 But we have again a system where the examiners are  
11 not letting you get away with two possible interpretations.  
12 And even when there are two possible interpretations, you  
13 can look at the file history, and the examiner has usually  
14 had a back and forth about that. So you can kind of figure  
15 out where things are, even if you just look at the claim and  
16 are not able to.

17 I do think that it is important that it be all  
18 within the file history, because if you start to look at  
19 external records, even in biotech, there you can probably  
20 find five different people to say five different things, if  
21 you look hard enough outside of the file wrapper. So I  
22 think it's -- I think it's very important for it to be all  
23 right there, and that the examiners fought with you, and





1       in *Phillips* you have this unbelievable passage. There's a  
2       paragraph that begins with -- I think it's the phrase, "In  
3       most cases." And the Federal Circuit goes on in that  
4       paragraph to say, "That in most cases it will be clear from  
5       the context that the patentee is either using these as  
6       specification embodiments as illustrative or as limitative."  
7       And the one thing that we know -- and I'm surprised the  
8       Federal Circuit would write it, is that that's not true in  
9       IT, and maybe some other contexts. But when you're writing  
10      10

1           So I think it does come down to the values in the  
2 Patent Office. Are the examiners going to say, you know: I  
3 don't really think you've defined very well what you've  
4 invented here. And until you satisfy some standard -- which  
5 would be hard to make it a clear standard, but at least some  
6 level of comprehension -- we can't issue this patent.

7           MR. COHEN: Let's get Kevin up here.

8           MR. RIVETTE: Well, you started this off with  
9 Judge Rich's idea of "Let's make this so people can  
10 understand it." These are business documents, these are not  
11 legal documents. And, yes, I think it's a great idea to  
12 have the legal discussion. But I think we should also focus  
13 on structural issues. You know, the one-sentence rule?  
14 Well, that's an interesting concept. You know, we've all  
15 become the experts around semicolons and colons and dashes  
16 and M dashes. And if you don't have a secret decoder ring  
17 and, you know, the handshake, you don't get to do this.

18           So to Judge Rich's point I think we've got to look  
19 at this from a different perspective. Have you ever gone to  
20 court or have you ever had an analysis done that didn't tear  
21 apart the claim and build it in a way that was actually  
22 interpretable by real human beings? And I am going to  
23 suggest I've ever seen it that way. So Vern, or anybody



1 the rules of claim construction.

2 Another participant responded that it was critical  
3 to get claim construction right. And that even in a *Markman*  
4 hearing that might still be too early to appreciate the  
5 context in a way that's necessary to construe claims  
6 correctly.

7 Which view of the world would you take? Which  
8 would you advocate that we strive for -- for early  
9 interpretations or strive for the absolute correct one,  
10 irrespective of the timeframe?

11 Daralyn.

12 MS. DURIE: It depends to some extent on what is  
13 at stake in the case. In general, I am a fan of early. But  
14 that is because I represent a lot of relatively small start-  
15 up companies, where the cost of litigation is simply  
16 prohibitive. You can't litigate -- it is extremely hard to  
17 litigate a patent case for less than \$2 million. Most  
18 people will tell you that the norms are more like 4 or 5.  
19 There are a lot of companies for whom that is simply not an  
20 amount of money that they have to spend, particularly when  
21 you couple it with the business impacts of the overhang of  
22 the litigation on the ability to raise more money and on  
23 interference with customer relations.



1 more transparency and more consistency -- because I do think  
2 that people change their story when they get into  
3 litigation, often. I think that things like interviews are  
4 an interesting place to look, right. So, I mean, how much  
5 information do you ever learn about what happened in an  
6 interview, in the -- you know, between the examiner and an  
7 applicant? Very little.

8 And so, for instance, I mean, considering whether  
9 they should be recorded and part of the file history, or  
10 not. And, you know, should the file history be published?  
11 If an application is published should everything in the file  
12 history be published, you know, as it's done, if it's all  
13 electronic?

14 These are things actually that I think you could  
15 argue, well, maybe that will have a little bit of a chilling  
16 effect under the discussion that applicant would have with  
17 the examiner. But on the other hand, I think the public  
18 notice part of the record, part of it is very important,  
19 because in some ways it will get the applicant to commit to  
20 some language in some definition that I think will help as  
21 part of intrinsic evidence in claim construction later. I  
22 think that you will even get some commitment there and some  
23 transparency there.





1                   When I started out talking about the hearing in  
2                   Washington, I threw in as a preamble that the participants  
3                   had argued about -- premised their argument on the inherent  
4                   ambiguity in claim construction. I'm wondering if anyone  
5                   wants to pick up on that, if anyone has views on that, and

1 is that they are legal documents, as a practical matter,  
2 because of what lawyers fight over and play word games with.  
3 And if you don't want them to be legal documents, you know,  
4 that lawyers play word games with, if you want them to be  
5 business or technical documents, then what I'm hearing is we  
6 need to focus on what the inventor actually invented.

7 This goes to Daralyn's comment about let's focus  
8 on the written description, and let's have a definitional  
9 section, and let's think about what the inventor actually  
10 created. In fact, it goes to Peter's comment about maybe a  
11 peripheral claiming is not such a great idea.

12 Maybe we need to focus more on Jepson, or what we  
13 used to call central-type claiming: Tell us what you  
14 invented. That would give us some early idea of what the  
15 patent means, is what you actually invented. And, yes,  
16 there will be some quibbling later on, and some fighting  
17 when infringement happens. But if you can shift the focus  
18 to what was invented rather than to what lawyers would like  
19 to make the words mean, then they could be technical  
20 documents, then they could be business documents rather than  
21 legal documents.

22 But as long as we think of them in terms of legal  
23 documents of what lawyers are going to play word games with,





1 claim construction doctrines, in terms of its enforcement,  
2 is the idea that claims should be construed to preserve  
3 their validity.

4 I've certainly talked to judges in the Northern  
5 District of California who said they don't follow that all.  
6 That they simply view their job as coming up with the best  
7 construction of the claim language, leaving validity  
8 considerations entirely to another day, and leaving 112  
9 considerations entirely to another day, as well.

10 And so I, as you probably gathered, do think that  
11 importing into the claim construction analysis, some sense  
12 of trying to have there be a meaningful fit between the  
13 claim's scope and what actually was described as being the  
14 invention, would go a long way towards reconciling what I do  
15 think is otherwise just an inherent ambiguity in the English  
16 language. And if anyone doesn't believe me on this point, I  
17 propose a little experiment, which is, you know, take two  
18 people -- you need three people to do this. But have -- you  
19 know, have an object -- have somebody describe it, without  
20 showing what it is. And have two people illustrate what it  
21 is that they think is being described. And then show the  
22 object in question. I would predict that very few of you --  
23 but you accurately could reproduce this, if the words to be

1 used didn't include water bottle, simply because of the  
2 imprecision that's inherent in language.

3 MR. COHEN: Yeah, let's go to Dan and then lead  
4 with -- to wrap up.

5 MR. BURK: Well, I agree with Daralyn, if it  
6 hasn't been clear already that you can, you know, never get  
7 rid of the imprecision. But what you can do is create  
8 doctrines and structures that ameliorate it.

9 So we've heard repeatedly this morning that we're  
10 concerned about patentees who are playing games with the  
11 Patent Office, who would like to leave things as open as  
12 possible, and see what happens later. Lawyers and patentees  
13 who play games in court.

14 This is not unique to patent law, right. We can -  
15 - we construe contracts all the time. We construe statutes  
16 all the time. And we have rules that create incentives to  
17 do certain things in those situations. For example, there's  
18 an old rule that construe contracts against the drafter,  
19 when their's ambiguity. Now we might not want to think  
20 about whether your question leads us to some defaults,  
21 right, some doctrines that create incentives not to play  
22 games in the Patent Office, or not to leave things, as Peter  
23 pointed out, as ambiguous as possible, to see what advantage

1       you can get later.

2                   And what happens if we construe the patent against  
3       the patentee, if we think that there's been deliberate use  
4       of ambiguity to claim things that weren't actually invented.  
5       So we might want to think about, you know, how to structure  
6       those kinds of doctrines to create the right incentives,  
7       rather than perverse incentives, which I think we're  
8       discussing.

9                   MR. COHEN:   Now let's end up with Lee.

10                  DR. PETHERBRIDGE:   Yes.   So I agree with that.  
11       And I think that, you know -- I think the rules that call  
12       for sort of the liberal construction of patents are old  
13       rules that probably came into existence and actually thrived  
14       in the time of central claiming, which we don't really have  
15       any more, at least in many forms.   And I think that the  
16       advent of peripheral claiming suggests that those rules  
17       maybe ought to be abandoned in favor of a stricter  
18       interpretation of claims and that patents ought to be  
19       subject to rules, like contra preferendum and rules that are  
20       used to construe contracts against their drafters.

21                  And I'll -- this sort of add to the final point,  
22       which is the notion that we want to give inventors rights in  
23       the things that they invent is very appealing.   And this





1                   MR. COHEN: Thank you. Let's break for 10  
2 minutes.

3                   (Recess taken from 10:36 a.m. to 10:50 a.m.)

4                   MR. COHEN: Okay. With the time remaining, we've  
5 got a little more than an hour, I'd like to try to cover  
6 three large blocks of topics. One would be picking up where  
7 we left off. I'd like to move into the examination process  
8 and try to think about ways that notice might be improved  
9 through tinkering with aspects of that process.

10                  A second large block of issues that we would like  
11 to touch on would be the availability of notice from  
12 applications, what we can learn there, what we understand  
13 will emerge from the application when it's all finished.  
14 And then, finally, the whole set of issues that revolve  
15 around numerosity of patents and problems posed by  
16 inadvertent infringement.

17                  So let's turn to examination. I guess the general  
18 question is: Are there ways to meaningfully improve notice

1 Daralyn.

2 MS. DURIE: Yes. I think that's absolutely a good  
3 idea. I think in order for it to be effective it needs to  
4 be coupled with some clarity on the back end of about how  
5 statements in the prosecution history get used in claim  
6 construction. And I've always had the view that statements  
7 in the prosecution history are really relevant to claim  
8 construction in two ways. One is an interpretive guide to  
9 what the words in the claims mean. And the other is of the  
10 source of the disclaimer. But I think many courts really  
11 focused on the Federal Circuit language, talking about  
12 disclaimer and think that statements in the prosecution  
13 history are relevant to claim construction only if they do  
14 meet that standard of being a clear disclaimer of claim  
15 scope, rather than being used like the specification as a  
16 way to understand what it was that the applicant and the  
17 examiner understood the claim scope to be.

18 MR. COHEN: Good. I see Lee's sign has -- he's  
19 written in the area. You'll probably want to talk to that.

20 DR. PETHERBRIDGE: Yeah, sure. So I'm at -- I  
21 think there are things that can be done. And this goes back  
22 to our question from before the break about, you know,  
23 places in which you could make some adjustments and get some

1 improvements. And then, really, the thrust of the piece  
2 that you cite on the -- sort of the fifth page of the  
3 questions there, positive examination, sort of addresses  
4 this particular point. And really there are two sorts of  
5 arguments made in the paper, one of which is -- and I will  
6 sort of overstate this to just to give it some effect. One  
7 is to say patent examination in some respects ought to stop  
8 worrying about obviousness, ought to stop worrying about  
9 validity, because, at the end of the day as we now know,  
10 that's essentially just a judgment call. All right? And  
11 what patent examination ought to do is refocus more on  
12 trying to assess and put information into the record. Not  
13 so much assess, but to put information into the record  
14 that's useful and relevant to define the scope of the  
15 claims.

16           And the way the article talked about doing this  
17 is, it suggests having in the prosecution history a claim  
18

1        what certain claim terms mean.

2                The other way to go about it is -- is to allow the  
3        applicant to do, and then allow the examiner in to just sort  
4        of work off of that. But what it does, I think, is  
5        ultimately focuses the discussion that the applicant and the  
6        examiner have during a patent examination, more specifically  
7        on the boundaries of the right that the patentee seeks.

8                And I think you can do this, first of all, I think  
9        the paper certainly makes the argument that you do this in a  
10       way that's relatively cost-effective. And you can certainly  
11       do it by taking some, I think, of the energy away from  
12       trying to make judgments about obviousness, which reasonable  
13       people can sort of ultimately disagree on at the end of the  
14       day.

15               And so I think the way this claim chart could sort  
16       of work, in the prosecution history, is it could really be  
17       sort of a living, breathing document that sort of helps show  
18       the evolution of the understanding of claim language  
19       throughout the course of prosecution.

20               And then sort of build on the point Daralyn made,  
21       I think that there ought -- there have to be rules about how  
22

1 allows a whole other substrate, right, upon which claim  
2 construction law can develop and evolve that doesn't exist  
3 at this particular point. It particularly doesn't exist  
4 after the *Phillips* opinion where there really are no rules,  
5 right.

6 This is a whole new source of information that  
7 could exist and could be used to develop claim construction  
8 law into all different kinds of new directions. And so I  
9 think that's really the strength of that kind of an  
10 a(57.600034ch0000 cm0.00 0.00 0.00 rgBT64.8000 556.9200 TD()Tj0.0000

1 action by going through that process because you both get on  
2 the same page and you start talking about what needs to be  
3 done and what the issues are.

4 The claim chart, that sounds like it would be very  
5 helpful, but when I think about that prospect of  
6 trying to preserve my client's rights, I can see that that  
7 would require a lot of effort on the part of the examiners  
8 to enforce that so it doesn't just become a sham and  
9 essentially become, "I'm going to take a definition and a  
10 term that I've had a specification and I'm just going  
11 to copy and paste it into the claim chart."

12 And I would be concerned that that would be the  
13 natural tendency for that to occur in that way, unless the  
14 examiner was given more time to examine applications, which,  
15 of course, would then cost more money for applicants to file  
16 their applications.

17 So I think those are some of the concerns that we  
18 see.

19 MR. COHEN: What would happen if it were the  
20 examiner who first drew up the claim chart on key issues,  
21 trying to use language that he finds helpful, and then it  
22 became the applicant's obligation to point out if the  
23 applicant disagreed with anything that the examiner put in

1           there?  Would that be a more useful way?  I could understand  
2           it would be more costly, but would it be more useful?

3                       MR. McNELIS:  It would be more costly.  And I'm  
4           pretty sure every applicant would make major changes to the  
5           claim chart.  But it would at least -- it would create more  
6           of a record in terms of what the examiner was thinking.  So  
7           there is -- there is some good -- there is some benefit to  
8           doing that.  But, at the end of the day, I would basically  
9           start at a blank sheet and start over and put in the terms  
10          that I'd want to see there.

11                      MR. COHEN:  Um-hum.  Jason.

12                      MR. SCHULTZ:  Just a few quick points.  I think  
13          that the record and examination can serve for a later  
14          litigation.  But, also going back to kind of freedom to  
15          operate and clearance, especially for some of the innovators  
16          that I've represented and particularly in the open-source  
17          software movement, people who don't generally patent and  
18          don't really -- can't really afford to litigate, they will  
19          look and they will go and they will themselves pull the file  
20          history.  Right, and, you know, they'll just be coders who  
21          are interested and curious in looking through things.  And  
22          they want to learn kind of what happened, and it's  
23          mystifying in some ways to them.

1           And so I think bringing more clarity to the  
2 dialogue that happens and so I think a pre-office action  
3 interview, if it's something that they can get a hold of,  
4 even themselves before they have to come to a lawyer, could  
5 be incredibly effective in helping them.

6           So I think making, again sort of a more  
7 transparent interaction and one that might even have lower  
8 transaction costs, right, so to transcribe interviews is  
9 heavy, but to record one and post it as a file, as a sound  
10 recording, may not actually be that bad.

11           The other thing is that, I mean, coming up with a  
12 claim construction could be burdensome. But, at a minimum,  
13 and you see this in claim-construction charts, citing to  
14 where the -- to the points in the specification that should  
15 be used to define the term, right. Just I'm talking numbers  
16 here, right, this column, this line number, this figure.

17           Again, from a transaction-cost point of view, that  
18 could be pretty simplistic. And, again, people play some  
19 games, but I think you could at least get them some basic  
20 data there that when people see it, they have some sense of  
21 -- of how much gamesmanship is going on.

22           The last thing I'll say too is that in terms of  
23 this dialogue, I think the way in which the patent



1 examination process has been set up traditionally is that  
2 the only interactions are really adversarial interactions.  
3 And going to a more interview-type system allows you to get  
4 away a little bit from that. It's like if the only thing  
5 you ever hear from the Patent Office is, "We're rejecting  
6 you for all these reasons." It does create, you know, this  
7 kind of adversarial sense.

8 So, for instance, I could see possibilities for  
9 examiners to just have questions in written form that they  
10 could issue to the applicant, saying, "I have a question  
11 about these things." Or some other way to elicit  
12 information that again, you know, if there's a simple  
13 answer, it comes out. If there's a more complicated answer,  
14 they can then dialogue about it.

15 MR. COHEN: Michelle.

16 MS. LEE: I think anything in terms of a  
17 conversation between the applicant and the examiner that  
18 gets to the issue of what is old and what is new and the  
19 reason for allowance is critical.

20 And then once you've had that conversation,  
21 getting that on the record is even more critical, because  
22 that at the end of the day is going to determine the scope  
23 of the claims, notice, and all of that.

For The

1           it, but I don't think it's used that often. So the notion  
2           of let's think about really distinguishing what is new, what  
3           is old, and presenting it clearly in the file history and in  
4           the claims themselves.

5                     MR. COHEN: Let's go to Peter.

6                     DR. MENELL: This came to me in the last few  
7           minutes, so it may not be well thought out. But --

8                     (Laughter.)

9                     DR. MENELL: But as long as we're going to have  
10          these interviews, and given what the Federal Circuit has  
11          said in the most authoritative claim-construction decision,  
12          that in most cases it will be clear whether the spec --  
13          whether the embodiments in the spec are illustrative or  
14          limitative, we should ask that question in the interview.

15                    I mean I think that anything that the examiner can  
16          do, or the process can do to nail that issue down, given  
17          that that tends to be the critical issue when you get to  
18          claim construction, would be beneficial. And I think we  
19          have in some ways the imprimatur of the Federal Circuit.

20                    MR. COHEN: So we've heard a little bit about  
21          claim charts. We've heard a little bit about to designate -  
22          - or explaining whether examples are illustrative or not.  
23          Other possibilities -- that would seem -- might be requiring



1 MR. RIVETTE: Yeah, on the gamesmanship I think  
2 you're always going to have it. I mean you have it in  
3 contract law, you have it all -- all over the place.

4 The issue of trying to nail down the definitions,  
5 I think just tends to limit that. I think that if you can  
6 get a set of definitions that the examiner and the applicant  
7 actually agree on, from there you can then discuss  
8 gamesmanship later in court, if that's what's necessary.

9 But it actually makes it easier if we -- you know,  
10 as I've seen it, if you present this in a business context  
11 to the people that have to make the business decisions. If  
12 they've got a set of definitions that they can go back to,  
13 they can make better business decisions instead of having,  
14 you know, four or five different places it shows up with  
15 slightly different nuanced interpretations.

16 So I think you're -- you know, I think that  
17 anything we can do to get more lockdown on what those  
18 definitions are will be better.

19 MR. COHEN: Um-hum. Vern.

20 MR. NORVIEL: So dating back to when I was on the  
21 PPAC actually and through, I think, even the conversations  
22 today, I think there is one -- stepping backward step, there  
23 is one issue that I think we really need to wrestle with



1       it cost to actually deal with it effectively, I think we'd  
2       end up with a much better system. And I think it's been  
3       proven out to work reasonably well in Europe, where it works  
4       much better we would all agree, I think.

5               MR. COHEN: I think I'll try Jason and then Lee.

6               MR. SCHULTZ: I just have a very quick point. I  
7       wanted to throw into the pile of things we're looking at the  
8       notice of allowability, which is usually the final statement  
9       that the examiner sort of makes about why the prior art was  
10      overcome or whatnot.

11              And, to go to Michelle's point about, you know,  
12      you'll see that an interview happened and then you'll see  
13      that the claims were allowed. And then it's like you don't  
14      understand what went on there in that situation. And -- and  
15      I think that any -- and part of it, I think, is that there  
16      are almost no standards really for the notice of  
17      allowability. You're supposed to make a statement. The  
18      statement is often just a sort of pro forma, like it  
19      overcame the prior art. Or often you'll get one element  
20      that they'll single out and said this was not in the prior  
21      art, with a very little explanation.

22              So I find that also that, in particular, that  
23      stage, and I think what you see there is that there's this

1 talk about, well, you basically wear down the examiner until  
2 the examiner gives up. And that's often what I feel. I  
3 just intuitively feel that's where the examiner gave up.  
4 And so some focus there I think would be useful.

5 MR. COHEN: Lee.

6 DR. PETHERBRIDGE: Yes, sir. I just want to sort  
7 of follow some of these -- these points about cost and  
8 allowability and things like that as they pertain to  
9 positive examination, as they pertain to having, say, claim  
10 charts in the file history.

11 I mean I think, you know, we've talked a lot about  
12 sort of getting information for these claim charts from --  
13 from places in the -- in the patent document, in the written  
14 description where this information is cited. And that's  
15 certainly a place it can come from, right. But certainly  
16 there's a cost to doing this, right. And I think if you --  
17 if you sort of go to an electronic filing system, this can  
18 be done more quickly.

19 And this information doesn't have to just come  
20 from, say, citations in the patent document. It can come  
21 from scientific literature, you can cite scientific articles  
22 that defined or described terms, or show relevant  
23 experiments that demonstrate the principles you're trying to



1 describe with your claims. You can cite to patents in the  
2 field. If the examiner happens -- maybe one of the things  
3 examiners are familiar with are similarly-situated patents.  
4 And they might have an understanding that -- they may know  
5 patents they could go to, to get information to help them  
6 describe these terms. And they could cut and paste and put  
7 these things into these claim charts in ways that if, say,  
8 they got claims that weren't well defined, in the first  
9 place, they could -- they could quickly do this without  
10 having to necessarily go through a whole lot of rigmarole in  
11 terms of -- or a whole cost effort in trying to come up with  
12 some definitions to start out with.

13 I was just thinking as I was listening to Jason  
14 talk about notices of allowability. I think, you know,  
15 right now, at least the way I recall the law, is that they  
16 don't have any real legal effect, right. So I think the  
17 concern with notices of allowability -- and Michelle has  
18 expressed this as well about having them being uninformative  
19 -- is I don't think they are very well -- you know, they're  
20 not meant to be informative. They're not well thought out.  
21 And I'd be concerned that, you know, if we somehow started  
22 to use them, we'd have to really put a lot of effort in to  
23 making sure that, you know, what the -- what the examiner

1       wrote down was somehow, you know, really -- really salient  
2       material to the patentability concern. And that actually  
3       might be problematic.

4

1 Civil Procedure, right. And periodically every few years we  
2 come back here and say we're really going to fix discovery  
3 to where people give truthful responses and it really lowers  
4 the cost of litigation. It really fixes things.

5 And we tweak things. We find out that the game is  
6 different, but it's still a game. And a few people have  
7 said, you know, we could do these things and there will  
8 still be some gamesmanship. I think it goes back to  
9 something that Jason said about transaction costs and cost,  
10 right.

11 People who are trying to get patents have a  
12 certain amount of time and energy to spend getting patents.  
13 And the Patent Office has a certain amount of time and  
14 energy to expend doing examination. Realistically, we're  
15 not going to get huge influxes into the budget of the Patent  
16 Office, so we get something, a very different institution  
17 than we have right now.

18 And so the question we have to ask at a fairly  
19 high level is where do you want to encourage people to spend  
20 that time and money, right. And we can kind of push it  
21 around to different places. And some of these suggestions  
22 will push it one place. And some will push it other places.  
23 But it's going to net out to be about the same, is my guess.







1 reliable for what they look at; and having in some ways  
2 greater commentary by the examiners, you know, should be  
3 given some -- maybe not deference in a *Chevron* sense but,  
4 you know, some degree of consideration could help.

5 And, you know, we could go further and make it  
6 more of a deferential process, at least for art that the  
7 examiner considered. But those I think are the ways in  
8 which you improve administrative and judicial interactions.

9 MR. COHEN: Let's take Kevin and then John.

10 MR. RIVETTE: To Jason's point about transparency,  
11 I agree with you for almost all of the Office actions, that  
12 we should be very much transparent; that the examiners  
13 probably should be putting more in there and not just  
14 checking off boxes.

15 With regard to the -- you know, let's say we did  
16 go to an initial interview prior to first office, I would  
17 suggest that we not make that transparent. Because at that  
18 point what we're really doing is trying to wrestle to the  
19 ground what it is we're talking about. And if we really do  
20 step in and make that transparent, my gut is what you'll  
21 find is that everybody lawyers up real fast and it really  
22 doesn't -- it doesn't solve the real issue, which is can we  
23 at least get within, you know, horseshoes and grenades of

1           what this thing is that we're dealing with.

2                       MR. SCHULTZ:   Can I respond just for --

3                       MR. RIVETTE:   Yeah, yeah.

4                       MR. SCHULTZ:   I mean I completely understand.

5           That the chilling effect that I was --

6                       MR. RIVETTE:   Right.

7                       MR. SCHULTZ:   -- sort of sensitive to.   The  
8           problem that I struggle with around that, though, is then we  
9           pretend that the specification in the application that they  
10          submitted is the invention.   Right?   So it's like we are  
11          struggling with -- and if we're talking about notice, right,  
12          and we sort of go back to this -- I mean, this is what we've  
13          published.   We've published the application, right?   And it  
14          just -- it makes me -- it's like, well, I want to get the  
15          examiner and the applicant closer together to make it  
16          efficient.   But, at the same time, if there's a notice  
17          function being played by the documents that were filed  
18          previous to that, then I feel like we're actually kind of at  
19          odds with ourselves.   And so I just don't -- I would ask,



1           you know, I may not have an invention here.

2                       And what had happened in a couple of the instances  
3           -- because what we're talking about here is actually  
4           bringing in the inventor, not just the lawyer. It's not  
5           just the lawyer sitting down and say, here's what our  
6           invention is. It's the inventor or saying to the examiner,  
7           you know, why don't you get it; or the examiner saying,  
8           well, why don't you get it, that there's really nothing  
9           here. And that allows a different conversation than once  
10          the office actions start and everything is on the record.

11                      And so we -- we thought long and hard on this  
12          issue, because if everything is on the record, then there's  
13          no misstep that's allowed, there's no ability for them to  
14          go, 'I didn't think of it that way.' There's no ability to  
15          stand back.

16                      MR. SCHULTZ: Right. And I completely understand.  
17          But then what do you do about the documents and the  
18          presumptions of the notice that come with --

19                      MR. RIVETTE: Yeah, but those -- I mean the first  
20          office action normally hits that which is, you know, after  
21          the discussion what normally happens is here are the things  
22          we're -- you know: I've looked at it. I understand your  
23          point of view, but I still disagree with that. Or: Here's

1       why I'm going to reject. And all of those should be open.  
2       And I think we should have better -- better transparency to  
3       those issues, because I think that we don't do enough right  
4       now to articulate what the examiner was thinking. It's too  
5       easy for him to check off boxes.

6                 But I would caution that the chilling effect could  
7       be so great, because -- I mean we went through this ad  
8       nauseam on interviewing different groups. The moment we  
9       make this truly transparent, at that point no one is going  
10      to say anything. And then we really -- now we're in a very  
11      adversarial system the whole way through. So that's the  
12      only point I'd make on that.

13                MR. COHEN: John.

14



1       that's going on back and forth and maybe require more from  
2       the applicant.

3               And we can charge \$5 to \$10,000 for something like  
4       that. And then the rights for that patent, if it issues,  
5       would be what we're seeing today, where there's no  
6       compulsory licenses and you get the true monopolistic  
7       rights. But in some way it's going to cost more money for  
8       us to get a better notice in place.

9               MR. COHEN: I'll break my -- my prior statement.  
10       We'll take Lee to wrap up on examination, then we will go  
11       on.

12              DR. PETHERBRIDGE: So I just wanted to -- really  
13       my thoughts were -- were sort of stuck in the colloquy that  
14       Jason was having with Kevin about sort of these pre-  
15       examination interviews. And, you know, my recollection  
16       from, you know, back when I practiced and at the court, and

1 represent, well, look, maybe we don't really have that much.  
2 And you can get a sense of some kind of an agreement, sort  
3 of maybe between the examiner and an applicant or potential  
4 applicant about what an invention is.

5 But then the language that sort of comes out of  
6 that meeting is, well, the applicant -- and the -- or maybe  
7 I should say the examiner has a view of what the invention  
8 is based on what was told to him in that meeting. And then  
9 the language that sort of develops in the patent document  
10 might not well reflect that, viewed more objectively from --  
11 from people on the outside, right. So what you might have  
12 is a sort of, kind of a representation of a narrow invention  
13 they could sort of, well, we know it's narrow, and then the  
14 words used to sort of talk about it are -- are maybe much,  
15 much broader or more uncertain. That's sort of at the end  
16 of the day, that allows for, you know, some gaming of the  
17 system here -- there, by not sort of allowing for some  
18 transparency in that sort of an initial interview, so I  
19 don't know.

20 MR. COHEN: Okay. Let's shift now to the issue of  
21 notice that can come from pending applications. I'd like to  
22 start briefly with publication. I think -- well, we're  
23 probably now into a set of issues where we can try to give

1 short answers, which might convey a lot of useful  
2 information in the little time that we have left.

3 On publication, I heard a couple of you already  
4 talk about the idea of the possibility of publishing inside  
5 the 18-month period, shortening that, or doing away with  
6 that. I'm wondering if anyone else wants to comment on  
7 that, on whether that would be useful. Whether the 18-month  
8 delay is currently a problem of any magnitude. And whether,  
9 if you went to publication, whether that would have any  
10 downsides.

11 Michelle.

12 MS. LEE: So I think I'm in favor of publication,  
13 definitely. And Peter's suggestion of immediately upon  
14 filing is a good idea. The problem is is the rest of the  
15 world doesn't have immediate publication.

16 DR. MENELL: Exactly.

17 MS. LEE: So that would create some gamesmanship,  
18 right? If I really didn't want the world to know about my  
19 application, I might go file in a different jurisdiction, et  
20 cetera, et cetera. So I think there are some practical  
21 realities there, as between a publication obligation and  
22 none.

23 Even at 18 months, I'm in favor of the publication

1 requirement at 18 months. And, you know, when you look at  
2 the 18-month period in the software space, some product  
3 development cycles are very short, on the order of three  
4 months from concept to launch. So even if I want to do a  
5 clearance search, right, and I want to know what my  
6 competitors have filed or what other inventions are out  
7 there by individual inventors, by definition my search and  
8 the information that I have access to is out of date. So  
9 that's a problem. But an 18-month delay is better than a,  
10 what is the delay now, four to five years between a filing  
11 and issuance? So if I had my choice I'd rather an 18-month  
12 delay.

13 MR. RIVETTE: Should be across the board.

14 MR. COHEN: Yeah, let's throw in the issue for  
15 publication, as to whether we would want all applications  
16 published.

17 MR. RIVETTE: Yeah.

18 MR. COHEN: And not just so those that are filed  
19 foreign.

20 MR. RIVETTE: Internationally, or large entities,  
21 right.

22 MR. COHEN: Kevin.

23 MR. RIVETTE: You know, my -- and this is not on

1       behalf of the Office or anything else. I mean my gut is  
2       that everybody should be treated equally. I think that the  
3       18-month rule would work and that you should follow it --  
4       no, I mean there shouldn't be exceptions. That's my gut.

5               MR. COHEN: John.

6               MR. McNELIS: I think the concerns are the solo  
7       inventors, primarily. I think most corporations are fine  
8       with the 18 months. I do think it should be, for anyone who  
9       is not necessarily a solo inventor, it should be 18 months.  
10      There should be no distinction between whether something was  
11      filed internationally or not.

12              MR. RIVETTE: But they don't have that in Europe.  
13      They don't have that anywhere else.

14              MR. McNELIS: Correct. I think this is a more  
15      pragmatic response in terms of what the issues are with the  
16      solos here.

17              MR. COHEN: Maybe you could explain what the  
18      concern is that the solo inventors have.

19              MR. RIVETTE: Right.

20              MR. McNELIS: The concerns I've heard from solos  
21      are primarily that if you go and you disclose something too  
22      quickly, then you're stuck in a situation where the larger  
23      companies can go and basically steal the idea and there's



1 essentially no recourse because it's so expensive to follow  
2 up.

3 And so the issue basically comes down to -- I  
4 think everything should be published, I don't think it  
5 should be limited. I think small entities should be subject  
6 to this also. I think there potentially should be just a  
7 carveout for those that are truly solo inventors.

8 MR. COHEN: Anybody else on publication?

9 A little bit related to this there is the issue,  
10 which has been floating recently, of deferred examination.  
11 And I'm wondering if anyone has thoughts as to whether there  
12 are any specific features that should be incorporated in a  
13 deferred examination system that would help safeguard  
14 notice. Publication requirements, anything along those  
15 lines? Do you have any thoughts here?

16 If not, we'll move on.

17 Let's talk about evolving applications and, in  
18 particular, how this ties in with written description and  
19 enablement. And I guess the overall question is: Do you  
20 feel that current written description and enablement  
21 requirements cause applicants to provide adequate notice as  
22 to the universe of inventions with respect to which the  
23 applicant may ultimately be able to claim exclusivity?



1 matter, the examiners these days without significant battles  
2 are willing to give you pretty much only exactly what you've  
3 actually done in the first blush in life science. So this  
4 is restricting or limiting to some extent I think,  
5 investment in healthcare, so I think that if that were to  
6 swing further I think it could be extremely damaging to  
7 health innovation in this country.

8 I do think we can again learn from that and see  
9 that once the examiners are incentivized and knowledgeable  
10 enough, they can see when people are playing games and  
11 trying to scoop up the world when all they really did was a  
12 very small thing.

13 So I think we should learn from that in other  
14 industries, but I think again we have to be very careful not  
15 to clamp down on that even further such that we have a  
16 healthcare industry that is no longer financeable in this  
17 country.

18 MR. COHEN: Well, I'd like to develop this idea of  
19 learning from that in other industries. Does anybody have  
20 thoughts as to the extent to which written description and  
21 enablement are being adequately enforced in, say, the  
22 electronics industry or the mechanical arts?

23 Anyone want to talk about it from that



1 description is sometimes being applied too stringently. And  
2 the problem there is that there's such a focus on the  
3 specific examples and the specific actual work that was  
4 done. And even when there is a description of a broader  
5 genus of the invention, there's a finding that there's not  
6 support for that, even though it's something that the  
7 inventor pretty clearly described as being within his  
8 contemplation.

9           On the other hand, I think when you do get into  
10 some of the IT areas, there really doesn't seem to be much  
11 enforcement of the written description requirement at all.  
12 And I think it may be because sometimes the invention is  
13 less tangible. In many cases, the inventor didn't do any  
14 inventive work at all, I mean in the sense of actually  
15



1           Do you agree or is it the feeling of the panelists  
2           that there's some tension between continuation practice and  
3           public notice?

4           Vern.

5           MR. NORVIEL: Just leave it up. So I'm very clear  
6           and strong on this point. We actually had an informal  
7           study. And in healthcare, again because the examiners are  
8           so restrictive in healthcare, if there are not continuations  
9           and divisions available reasonably widely in healthcare,  
10          there will absolutely be a restriction on healthcare  
11          investment in this country, I guarantee that. So we have to  
12          be very careful in this regard.

13          Again, I think if the examiners are being very  
14          careful you won't have continuations popping out with  
15          absurdly different claims in the fifth continuation or the  
16          first continuation. I don't think the fifth one should be  
17          any different than the first one, and there's no conceptual  
18          reason why they should be. So I think we have to be  
19          extremely careful about this, because most cases that are  
20          litigated in life science you would find were on subsequent  
21          continuations. And if the examiners are only able to do the  
22          first one in life science, then the VC is not going to be  
23          investing in those companies to do things like cure cancer

1 and Parkinson's and those sorts of horrible diseases.

2 MR. COHEN: John.

3 MR. McNELIS: I agree with Vern, I think  
4 continuations are critical to keep, and not to limit as per  
5 the rules that were promulgated about a year and a half ago.

6 One of the issues is the notice. And as long as  
7 the applications are published and the prosecution history  
8 is available on PAIR, I think the problem is very  
9 manageable. It's those applications that aren't published -  
10 - and so you get an issued patent, but you don't see what's  
11 going on in continuations -- that becomes more of a problem.  
12 And so as long as we can address this issue significantly in  
13 my mind by just solving the publication issue.

14 MR. COHEN: Dan.

15 MR. BURK: I guess I'll just comment that this is  
16 sort of the poster child for my earlier comment about  
17 gamesmanship, right. I mean so back when I was practicing  
18 before what was -- used to be Group 180 and is now 1800 and  
19 we had 17 years from issue, we played games with restriction  
20 requirements.

21 Now that's gone away and so people play games with  
22 continuation practice. And so there are going to be  
23 unintended consequences where people shift their effort



1           depending on what you do.

2                       The happy -- there's probably some happy medium  
3           between having enough continuations and being able to play  
4           the games that people play with continuations.

5                       MR. COHEN:  Michelle.

6                       MS. LEE:  So I wish I lived in Vern's world, in  
7           terms of the patents that are issued out of your world.  But  
8           going to the issue of continuation, I think it does run  
9           contrary to notice in our space.  And I just want to give  
10          one example.

11                      I mean oftentimes what happens in our space is the  
12          applicant who is filing the continuation is not the  
13          inventor.  So you've got a nonpracticing entity, a patent  
14          aggregator, that goes out onto the market, specifically  
15          looks to buy applications that are pending so that they can  
16          file continuations and mine them for everything that they're  
17          worth.  They know all the rules in the Patent Office.  They  
18          know what they can get through.  They know that you can add  
19          new claims, you can amend the claims to target other  
20          competitors, and the Patent Office is not going to look for  
21          a lot of support in the specification.

22                      They will also look to issued patents and they  
23          will attribute greater value to patents that are within the

1 reissue period, precisely so that they can go back and mine  
2 them for more. So I mean there is the opportunity for  
3 gamesmanship. I mean that's whether you're talking about an  
4 NPE or a real company, but the consequences for NPEs and  
5 what they're able to do with it and the consequences to  
6 operating companies is a pretty serious one in our area.

7 MR. COHEN: And, Jason.

8 MR. SCHULTZ: Yeah, just to follow up on that.  
9 Just for -- I think what -- I mean continuations have been  
10 talked about and I think that there are a lot of criticisms

1 Michelle, I think that the real issue is exactly what Jason  
2 was going to, which is if it was tightened up, if the spec  
3 was the only way you were going to be able to expand those  
4 claims or change those claims, but that goes back to, you  
5 know, how do we examine properly and how do we incentivize  
6 the examiner to be able to spend the extra time, or at least  
7 structure how do we have it so that you can easily see where  
8 the change was, because I don't think continuation per se is  
9 the issue.

10 MS. LEE: So I absolutely agree. I'm not saying  
11 continuation per se is bad, but it is subject to a lot of  
12 abuse.

13 MR. RIVETTE: It is the practice that -- yeah.

14 MS. LEE: And to the extent that the Patent Office  
15 can be stricter in its enforcement of support, I'd be in  
16 favor of that.

17 MR. RIVETTE: Yeah.

18 MR. COHEN: m()tyrblaz(9)Tj61.2000 0.0000 TD(t800 TDs)Tja

1 and certain doctrines can be improved.

2 I wanted to throw out a couple of issues of; Where  
3 are we now? What do we think practically can be done to  
4 improve notice given the discussion we've had of really a  
5 very broad set of possibilities? What problems remain with  
6 respect to the numerosity of patents. And given that  
7 assessment, what else might we do beyond simply trying to  
8 improve patent clarity and, in particular, do something  
9 about the way in which the remedy system, which we'll talk  
10 about this afternoon, plays into notice?

11 As Peter mentioned, one possibility is having  
12 inadvertent infringer defense or prior user defense as sorts  
13 of issues. Or simply other mechanisms which might make  
14 damages depend on the level of notice. So I'd like to throw  
15 out that broad set of questions.

16 Yes, Daralyn.

17 MS. DURIE: Well, I think it is the case that you  
18 have to think about notice issues on the back end as well as  
19 on the front end, because I don't think you can remedy the  
20 problem on the front end, particularly in art areas like the  
21 IT space. I think the problem is simply intractable.

22 And, as a consequence, you are going to have large  
23 numbers of infringers who did not receive actual notice and

1           could not plausibly have received actual notice at the time  
2           that they are making design choices relating to their  
3           products.

4                         And of course the problem now where you measure a  
5           reasonable royalty as of the date of first infringement is  
6           that you're looking at how much an accused infringer would  
7           be willing to pay after those design choices already have  
8           been made. And so built into the current structure is the  
9           availability of the argument that the infringer should have  
10          to pay a premium because the cost of redesigning the product  
11          to avoid infringement would now be so great; whereas, had  
12          they actually received notice of the patent, they would have  
13          been able to evaluate what the choices were ex ante and  
14          perhaps choose a noninfringing patent.

15                        I think our damages analysis needs to reflect the  
16          reality that notice in many cases is not practical and that  
17          if you are an innocent infringer you should be able to go  
18          back not just to the date of first infringement, but to the  
19          date when the actual design choices were being made and  
20          evaluate what the value of the IP would have been at that  
21          point.

22                        MR. ADKINSON: Kevin.

23                        MR. RIVETTE: I'm going to take it actually from

1 -- and I agree with Daralyn, but I think I'm going to take  
2 it from a different perspective and that is how the FTC  
3 looks at this not just as a notice issue. I've watched so  
4 when notice goes out, I've actually watched situations where  
5 companies have decided to move offshore, set up an  
6 infringing company. They know it's an infringing product.  
7 Two or three of those companies then manufacture the  
8 product, but sell it through hundreds of others companies in  
9 a global supply chain. And then it comes back into the U.S.  
10 and it's too expensive to actually fight it on an individual  
11 basis.

12 The ITC only gives you injunctive relief, even if  
13 you go for a global. And I'm going to suggest that the FTC  
14 should probably start taking a more nuanced look at global  
15 supply chains. Because I see it almost as a situation where  
16 you're looking at it like a tax issue: How can we avoid  
17 taxes in the U.S.? And what we've got here is: How do I  
18 avoid infringement if I go to a global supply chain and then  
19 bring the product back in. And it's really difficult for a  
20 patent holder to be able to, one, get notice to them. But  
21 even if they get notice to them, what do they do? How do  
22 they actually stop this? And there's no damages typically  
23 involved.

1                   So I'm going to suggest that that's an area that  
2                   the FTC might actually want to look long and hard at, at the  
3                   anticompetitive side.

4                   MR. ADKINSON: Thanks.

5                   Anyone on this side? Peter, do you have any  
6                   thoughts on this?

7                   DR. MENELL: Well, I mean I do think this is a  
8                   very fundamental issue. I don't think it can be solved --  
9                   well, I'd be skeptical you could solve it without  
10                  legislation.

11                  MR. ADKINSON: Yeah.

12                  DR. MENELL: And so that puts in a different class  
13                  than several of the things we've talked about. But the  
14                  economics, I think, are very supportive of this. There's  
15                  been a number of articles that have kind of developed this  
16                  theme.

17                  And I think we can -- I don't know that it's  
18                  legislatively feasible, but I do think when you think about  
19                  it from the standpoint of promoting innovation, you've got  
20                  people working in laboratories who have no ability to know  
21                  what is out there. And to tell them that you could face,  
22                  you know, all kinds of damages based on a very uncertain  
23                  standard by going ahead with those projects, I think it just

1           chills that area of innovation unnecessarily.

2                       MR. ADKINSON:   Mark Lemley and Chris Cotropia  
3           wrote an article published this year which showed that  
4           outside the pharma area more than 90 percent of all  
5           complaints filed were -- appeared to involve allegations of  
6           infringement that did not include allegations that the  
7           patent was known before the filing of the lawsuit.   So that  
8           inadvertent infringement in that sense, and you can define  
9           it obviously in a variety of ways, accounted for a large  
10



1 MS. DURIE: -- if you are a patent holder, it's a  
2 much greater risk to go make any kind of overture with  
3 respect to the licensing because you face a risk of a  
4 declaratory judgment suit, even if you don't make an  
5 explicit threat of infringement. So I think that may  
6 account in part for the increasing number of cases where  
7 there's not an allegation that the accused infringer was put  
8 on notice, and I do think that that makes this problem even  
9 more acute.

10 MR. COHEN: Yes, Michelle.

11 MS. LEE: Yeah, so in almost all the cases that we  
12 are dealing with, all the litigations, we did not receive  
13 prior notice. On only a very small portion of them did we  
14 actually receive a letter, the opportunity to discuss it.

15 And what that means, though, for businesses is  
16 that once you're in litigation mode, right, they know the  
17 cost of defense is on average 5 to \$6 million, so guess  
18 where the settlement price starts: It's 5 to \$6 million.  
19 And if you're dealing with an NPE and you're an operating  
20 company, the bulk of the discovery, which is in the initial  
21 phases of the litigation, is going to fall predominantly on  
22 the defendant. You've got lots of engineers, you've got  
23 lots of product development. Maybe the NPE bought the

1 patent from somebody else and there's some documents  
2 associated with the invention, but there's not a lot.

3 So already there's a disproportionate balance  
4 there and a disproportionate leverage, combined with --  
5 that's just through discovery -- by the time you go through  
6 summary judgment for hopefully an early summary judgment on  
7 noninfringement or invalidity, you're talking easily 2 to \$4  
8 million -- well, 2 to \$3 million. Daralyn would know the  
9 numbers better. But, again, --

10 MS. DURIE: Ours are cheaper.

11 MS. LEE: -- there's a tremendous amount of  
12 leverage and there's a tremendous temptation, regardless of  
13 the merits of the patent, regardless of how much notice --  
14 you are under no notice -- to just pay an amount of money  
15 under some amount of, you know, under 3 to \$4 million. So  
16 that's a practical consequence of notice and litigation and  
17 coming to you before versus later.

18 MR. ADKINSON: One other related question here is  
19 whether we can get better notice by being more specific  
20 about burdens and consequences of burdens for both the  
21 applicant and patentee, on the one hand, and the alleged  
22 infringer on the other -- to do more to make the existence  
23 of the patent known, on the one hand, or to search for





1 I've seen it with people backed that are inventors, that  
2 it's not an NPE situation.

3 I think that distinction should probably go away  
4 and we should look at this in a more global perspective, on  
5 how do we deal with the system. Because I think if we make  
6 the distinction at the NPE stage, I know a lot of companies  
7 that produce a lot of research that goes into other people's  
8 products. IBM was great with Lasik. We developed that.  
9 Are we an NPE because we never really practiced it? I mean  
10 these are sort of things. So that distinction, and that was  
11 the only thing I had wanted to point out, is that I actually  
12 find difficult for myself to go through.

13 MR. ADKINSON: Are there things that the PTO could  
14 do to make it easier for firms to identify potentially  
15 relevant patents?

16 MR. RIVETTE: In what -- I think, yeah, so I think  
17 the PTO, and you'll see in the 2008 PPAC report, we're  
18 looking for more transparency. We're looking -- at least  
19 the Advisory Committee is.

20 The PTO has a huge problem with IT right now. I  
21 mean we would love to put in systems of unitary search for  
22 the examiners. We would love to put in systems where we  
23 have, you know, statutory checks in all of the patents that

1       come in in textual format, so we can actually find out  
2       whether or not they should even get to an examiner.

3               I think that public PAIR should be completely out  
4       there. I don't see there's any reason why we have to screen  
5       scrap those on the private side. I think all of that  
6       information should be public.

7               And, having pushed at this a number of ways,  
8       typically what I run up against is the IT system is so  
9       delicate at the PTO that a lot of this can't be done the way  
10      it is right now. So I mean if I were here, I'd make a plea:  
11      Let's fix that. And now we've got a CIO that is doing that,  
12      we have a path forward, but I would like to see everything  
13      transparent as much as possible.

14              I'd like to see all the file wrappers easily --  
15      you know, they're in electronic format, let's make them  
16      easily accessible. Let's make it so that you could click on  
17      the file wrapper from the patent. Let's make it so that you  
18      could click on all the prior art patents from the patent.

19              I mean this is not rocket science. And I think  
20      that would go a long way to notice. I think it would allow  
21      the kind of user experience that we all expect from the net  
22      right now. And thanks to Google we have most of it and we  
23      don't understand why we can't get there from here at the

1 office, so.

2 MR. ADKINSON: Good. Thanks.

3 MR. COHEN: Okay. Listen, I did give you a  
4 promise that you'd all have an opportunity to make any final  
5 comments that you felt that we skipped over. I didn't  
6 promise you that I'd do it before we were all ready for  
7 lunch, but if anybody wants to say anything further?

8 Otherwise I'm going to thank you all for what I  
9 thought was a very helpful and very informative panel. I'm  
10 looking forward to reading the transcript and learning even  
11 more as I go over it and over it.

12 I want to add that there will be an opportunity --  
13 I guess -- through May 15th?

14 MR. ADKINSON: Right.

15 MR. COHEN: -- to continue to submit written  
16 comments for our record, and that would always be  
17 appreciated. And just the final repetition of thanks for a  
18 job well done. Thank you.

19 MR. ADKINSON: And thank you.

20 (Applause. Luncheon recess taken from 11:58 a.m.  
21 to 1:32 p.m.)

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P R O C E E D I N G S

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MS. MICHEL: If you'll take your seats we'll get started.

All right. Thank you. We are going to start the last panel of the last day of this series of hearings for the FTC's Project on the Evolving IP Marketplace. We'll be talking about remedies, including damages and reasonable-royalty calculations, so we're hoping to go out with a bang. I think this will be an interesting panel. We have a lot of ground to cover.

So, my name is Suzanne Michel, I'm Assistant Director for Policy at the FTC, and I will turn it over to Bill to introduce our panelists.

MR. ADKINSON: Hi. My name is Bill Adkinson. I'm an attorney in the Office of Policy in the Office of General Counsel at the FTC.

This panel is going to discuss damage awards, the current standards governing patent damages, and their impact on patent value and innovation. We'll look at damage calculations and the evidence used in calculating damages, particularly in the context of reasonable-royalty

1       determinations. We'll also look at permanent injunctions  
2       after the *eBay* case and the doctrine of willful  
3       infringement.

4               We've got a really great panel for today's last  
5       panel, and I tried to figure out a way to do them justice  
6       and keep this short enough, and failed. So I'm just going  
7       to give you a name, rank, and serial number.

8               Yar Chaikovsky is a partner at Sonnenschein Nath  
9       and Rosenthal;

10              Mary Doyle is a Senior Vice President and General  
11       Counsel at a75000 0.0e0lnior Vice President and General



1 the opportunities and technology for research and  
2 development, so it's likely to differ from industry to  
3 industry.

4 So getting patent rewards exactly right is very  
5 complicated, very industry-specific. I'm not sure it's  
6 really the objective that we want to shoot for in patent  
7 policy.

8 And other issue which is -- well, a couple of  
9 issues of course is that reward to one innovation can be a  
10 cost to a second innovation, to the extent that innovations  
11 build on each other.

12 And another issue that we don't think about much  
13 but I think we should think about is how do rewards affect  
14 incentives for conduct that we might think is pro-  
15 competitive, like licensing and like forming and holding  
16 together patent pools, which can be very much affected by  
17 the type of rewards to individual patent suits.

18 MS. MICHEL: Thank you.

19 Mary.

20 MS. DOYLE: My perspective is very much born,  
21 Suzanne, of the work that I do as a general counsel at Palm.  
22 And so I am focused more on what's wrong than what's right.  
23 And I think these statistics might illustrate best my

1           experience and what I likely think about the subject of  
2           damages in patent cases.

3                         Currently Palm has 17 cases pending against it and  
4           all but two of those cases have been brought by

5

1       against Palm, there are 21 since 2000, the total fees  
2       expended other than I said Xerox, in the Xerox case, were  
3       \$21.6 million and the total settlements were \$6.8 million.  
4       So we spent more than three times as much, as you can see,  
5       on defending cases, which now you understand why I'd say  
6       they're worthless, the median settlement: \$250,000. And by  
7       that I mean there were about ten cases settled for less than  
8       that and ten for more.

9

1 MS. MICHEL: So your concern then is that if the  
2 legal rules over reward or grant damage awards that are too  
3 high, it just encourages litigation?

4 MS. DOYLE: It encourages what I would consider  
5 opportunistic litigation that has little relation to the  
6 value of a patent, its patentworthiness, its validity, let  
7 alone whether or not it's infringed.

8 MS. MICHEL: All right. John.

9 MR. SCHLICHER: I want to repeat something Rich  
10 said which I think is very important: Remedies for patent  
11 infringement depend on what you're trying to accomplish. My  
12 view, I think I share with Rich, is that the purpose of  
13 granting patents is to encourage companies to do R & D  
14 projects that they would likely not undertake if they did  
15 not have patent rights.

16 The purpose is not to induce people to disclose  
17 inventions that they would have made with or without  
18 patents. The incentives that the rights will create  
19 obviously depend on the remedies. In my view an injunction  
20 is and always has been and should be the preferred remedy.  
21 The reason is that an injunction, unlike a damage remedy,  
22 forces people who know the most about the technology and the  
23 business to attach a price to an invention based on economic

1 reality. It also prevents activities, namely infringement,  
2 that distort the activities of patent owners and their  
3 licensees while they're exploiting inventions. Distortions  
4 that will have longlasting effect that damages will never  
5 remedy.

6 The third main point I think for me at least is  
7 that the patent system works only if people make agreements  
8 regarding these rights. It doesn't work to the extent that  
9 the courts have to make decisions about these rights or  
10 decide who uses what invention at what time and how much  
11 they pay for it.

12 To the extent that the system relies on  
13 agreements, patent owners and potential users of invention  
14 can make agreements only if they know how the courts are  
15 going to behave if they don't make an agreement. And that  
16 means patent owners have to know the likelihood that if they  
17 win they will get an injunction and the approximate amount  
18 of damages they'll get if they win. Potential patent  
19 infringers and potential licensees have to know the same  
20 thing.

21 If the law is such that you cannot -- that those  
22 groups of people can't predict in advance what will happen  
23 to them if they go to court, then the law on remedies is



1       defeating the very agreements on which the whole system  
2       relies.  And my view is that current damage rules and rules  
3       on granting injunctions in patent cases fail that test  
4       fairly miserably.

5                   MS. MICHEL:  Thank you.

6

1           whether it's damages or injunction, then what happens is  
2           that they don't get funded and that technology doesn't get a  
3           chance. That's where our concerns are.

4                       MS. MICHEL: Okay. Thank you.

5

1 damages outcomes quite easily, right. We could say  
2 everybody gets a million dollars, but that's absurd, right?  
3 Nobody would even contemplate such a system. The reason we  
4 don't contemplate such a system is that it does actually  
5 matter that we calibrate the patent damages rules to a  
6 normative baseline that's designed to achieve the goals Rich  
7 is talking about, right, to try to improve research and  
8 development incentives.

9 I mean it seems to me that we currently don't --  
10 we seem even now to argue about what that normative baseline  
11 is or ought to be. I mean it seems to me that the logical  
12 starting point is what is the value that the patent  
13 contributes to the world that we didn't have before, right,  
14 and what's the incremental value of the -- of the world with  
15 the invention versus the world without the invention, that  
16 even that has turned out to be extraordinarily controversial  
17 in congressional efforts to reform patent damages. But  
18 we've got to have, I think, some measure of what it is we're  
19 trying to achieve in order to figure out compensation,  
20 because if we do over compensate, if we do under compensate,  
21 we're distorting the free market.

22 MS. MICHEL: Okay. Vince.

23 MR. O'BRIEN: Yes. I mean in the broadest sense

1        what you're really trying to do is minimize enforcement  
2        costs while maximizing the preferred behavior.  And I'm  
3        talking about compensation damages.  There's also deterrence  
4        that go into that equation as well.  And compensation really  
5        goes to what people would often call fairness.  You know:  
6        I've been harmed, I deserve to be compensated for that.

7                But if you get it wrong, if you get damages too  
8        high, you have excess of litigation and you have licensing  
9        at excessive rates.  And you probably have less innovation,  
10       especially improvements on patented items.  Because if you  
11       get close to a patent you're likely to be sued and get  
12       bitten, so you'll stay away from those.

13               On the other hand, if you're under compensated you  
14       get investment in nonproductive activities.  You probably  
15       would get more emphasis on trade secrets, onerous contracts  
16       with employees.  At the extreme you get the Mafia to help  
17       you enforce your intellectual property rights.  It sounds  
18       funny, but that's what's happening in countries like Russia.  
19       These people serve an economic function.  And if you get it  
20       wrong, this is what happens.

21               And I come at it from the standpoint, well, when  
22       it comes to compensation in patents your goal really ought  
23       to be able to mimic the marketplace.  To measure what would

1 be the incremental value in the marketplace of this  
2 technology. And it's interesting, because as Mark points  
3 out that's controversial. And the fact is you often get a  
4 debate going on for hours where that's not even mentioned  
5 and it's quite shocking. But, anyway, that to me is why you  
6 need to get this right.

7 MS. MICHEL: Okay. Oh, yeah, Rich.

8 DR. GILBERT: Can we circle around a little bit on  
9 this. I think what Vince said is something I would agree  
10 with, although not because it's the right answer. I think  
11 what --

12 (Laughter.)

13 DR. GILBERT: Mark said that what we want to do is  
14 have a patent system that compares the world with the patent  
15 to the world without the patent and moves us in the right  
16 direction. And that's not necessarily the same as giving a  
17 reward equal to the incremental value of the patent. I mean  
18 you could have a patent where everybody knows it's worth a  
19 million dollars. There's just no -- there aren't many that  
20 are that clear, but you could have one, let's just suppose,  
21 everyone agrees it's worth a million dollars. But it might  
22 be for a technology that's going to get invented no matter  
23 what, that doesn't need a million dollars to promote

1 research and development. And you could ask the question  
2 why are we then rewarding it with a million dollars if it's  
3 not going to actually produce any research and development.

4 I, for one, think that a reasonable starting point  
5 is to say: Let's figure out what the incremental value of  
6 the invention is and try to steer patent rewards in that  
7 direction. It's a good starting point. It's not  
8 necessarily the right answer, but it's I think better than  
9 where we are now, where you often get rewards that are  
10 unrelated to the incremental value of the patent.

11 MS. MICHEL: Well, let's lay down this groundwork.  
12 Mark talked about the measure of what we're trying to  
13 achieve. I want to start with the words of the statute, at  
14 least as it's currently formulated. And, in fact, how I  
15 think it's even in some of the proposed changes, which is  
16 the damages should be adequate to compensate the patentee.  
17 And that has sometimes been discussed in the framework of  
18 putting the patentee in a position he would have been but  
19 for the infringement.

20 Is that a starting basis that makes sense?

21 Mark.

22 MR. LEMLEY: So, yes, and in the vast majority of  
23 cases it's also going to be the ending basis that makes

1 sense. So I mean the alternative -- patent law, unlike  
2 other areas of intellectual property law, doesn't involve  
3 disgorgement of defendant's profits, it doesn't involve  
4 measures with the exception of willful infringement designed  
5 to punish defendants. And there's a good reason for that.

6 The reason for that is that patent law, unlike  
7 other areas of intellectual property, doesn't punish people  
8

1                   Now I think there are cases in which there really  
2                   is theft of an idea. In those cases probably punishment is  
3                   an appropriate because we are -- we don't want, I think John  
4                   said earlier, right, to just displace the contract and  
5                   licensing system with a court system, right. We prefer  
6                   people who know that they are taking someone else's  
7                   technology to go and do a deal firsthand. But it's  
8                   important to keep in mind that that's a pretty rare part, a  
9                   pretty small part of modern patent litigation.

10                   MS. MICHEL: Okay. John.

11                   MR. SCHLICHER: Just to respond quickly to what I

12



1 DR. GILBERT: That wasn't my proposal.

2 MR. SCHLICHER: Okay. Then I misunderstood it.

3 The short answer is: The patent in the case you  
4 posited should be invalid. If the invention would have been  
5 made anyway, that there should have been -- there should be  
6 no patent.

7 To the more general point, the question -- the  
8 words "Put the patent owner in the financial position it  
9 would have been but for the infringement" come out of the  
10 Aro case. That's a Supreme Court case in the 1960s. It  
11 wasn't a damage decision, so you can't tell what they meant,  
12 if they meant anything.

13 My answer is that damages never put a patent owner  
14 in a position it would have been but for the infringement.  
15 Only injunctions do that. During the period of  
16 infringement, the price at which products are sold are  
17 distorted. The people that sell them are distorted. The  
18 investments that are made by patent owners and licensees to  
19 enhance the values of the inventions are distorted. Damages  
20 paid by an infringer to a patent owner can never undo that  
21 damage.

22 To the extent that you're talking merely about the  
23 monetary effects on those two people, the answer of course

1 depends on how it's applied, and that's the \$64 question.  
 2 If you ask the question: What is the amount of money the  
 3 patent owner would have made if the infringer didn't  
 4 infringe and vanished from the face of the Earth, you get  
 5 one number: But for this person doing this activity, how  
 6 much would the patent owner have made.

7 For most inventions, in my mind, that's way, way  
 8 too much, because the question's too simplistic. The  
 9 question ought to be: How much money would the patent owner  
 10 have made if it used the invention or something it had  
 11 available to it that was better and other people used the  
 12 and the ~~the appropriate question is to ask what the infringer would have made if,~~  
 13 and the amount of money the patent owner would have made if

1 And then we have to worry about deterrence and all of that.

2 MS. MICHEL: Right.

3 DR. GILBERT: But particularly for reasonable  
4 royalties, there's a fundamental problem with this analysis  
5 in that it's all circular. If I ask what is a reasonable  
6 royalty, well, what's a reasonable royalty is a value such  
7 that if I turn it down and go to court, the court will say  
8 that's what I owe you. Well, what is the court going to say  
9 I owe you, it's going to be the reasonable royalty that you  
10 calculated in the marketplace. So I mean this can wind up  
11 anywhere.

12 You can have a situation where high damages result  
13 in high royalties, which then reinforce high damages. Or  
14 you can have a situation where a low royalty or low damages  
15 result in low royalties which then reflect low damages in  
16 court.

17 The only way you can get around this is to  
18 actually look at the underlying value of the patent and  
19 that's a more complicated question.

20 MS. MICHEL: All right. We will go into that  
21 complicated question in just a couple of minutes.

22 And, Bill, any comments on -- what's our  
23 touchstone here, what are we trying to achieve with damages?



1 very often what we're seeing in these jury deliberations is  
2 the jurors going off the rails for reasons that are wholly  
3 unrelated to the law.

4 And the answer there is for trial lawyers to  
5 understand how jurors are likely to run off the rails in  
6 patent infringement cases and to use their skills to bring  
7 them back and to keep them on track. So I see the problem  
8 from a very different perspective.

9 Now John looked at this and said the current  
10 rules, he said, are failing miserably. I don't believe,  
11 frankly, that that is necessarily the case, at least I  
12 haven't seen that demonstrated from my reading of all the  
13 Federal Circuit cases. We've got to take a look at the  
14 trends. And when you sit down and look at the trends, the  
15 early Federal Circuit cases were very problematic on  
16 damages. The court was very loose on that kind of thing,  
17 but it's gotten a lot better. And Judge Rader is leading  
18 the charge to make it a lot better.

19 There is a common perception that was expressed in  
20 the House Report on the 2007 Patent Reform Act that damage  
21 awards are seldom overturned on appeal. That is just not  
22 the case. If you read the reported decisions, if you read  
23 the nonprecedential decisions, you'll see that the Federal



1 after laying this groundwork, dive into the nitty gritty of  
2 how to do that.

3 Yar.

4 MR. CHAIKOVSKY: So I guess my comment was going  
5 to be Bill's point, is he exactly pointed out that it takes  
6 the Federal Circuit to get it right with respect to  
7 compensatory damages. And so we have a system where whether  
8 you follow the *Georgia-Pacific* factors or what-have-you: How  
9 is a jury supposed to get it right? I mean we don't have  
10 juries getting it right. They have factors laid out in  
11 front of them that, quite frankly, they don't follow or they  
12 don't pay attention to. And they may make their  
13 determination based on some other aspect of the case. And I  
14 don't think they get enough guidance, quite frankly, from  
15 the lawyers.

16 And so right now we have a system that if you go  
17 to trial, you don't know what the result will be. And,  
18 going to Mary's point earlier, even prior to that, how do we  
19 know how to value this invention? I mean what value do we  
20 know to provide? And I don't think currently we have that  
21 guidance. And, quite frankly, even what's in the patent  
22 reform, I don't think that alone gets us that guidance.

23 Now do I have a perfect mathematical formula to

1 get us there? I don't. I don't have that solution. And  
2 I'd love it. I'd love to have it. I mean I'd love to have  
3 it, but we don't have that mathematical solution. And the  
4 realities are that, you know, anything we come up with,  
5 whether it's what we have today or whether it's what we have  
6 in the reform that exists, we're going to be litigating it  
7 no matter what. And it's going to be obtuse and the  
8 problems that Mary have are going to continue.

9 MS. MICHEL: Uh-oh. Well, let's hope not. So I'm  
10 hearing pretty broad consensus then that the point of  
11 damages is to be compensatory, not punitive. No  
12 disagreements there.

13 Vince.

14 MR. O'BRIEN: Well, the only comment I had is, you  
15 know, I liked the Aro wording.

16 MS. MICHEL: Okay.

17 MR. O'BRIEN: The only trouble is is these cases  
18 where the judge or the jury or even the CFC is way off base,  
19 start out quoting Aro, so it isn't helpful to us. I mean

20





1           But for me the problem is looking at a given  
2           patent and in the real world convincing the holder of that  
3           patent that at least in the case of my products, which have  
4           been referred to as complex products, that as everyone here  
5           knows, a Palm incorporates many, many different components,  
6           800 or 1,000, and certainly implicates in the view of patent  
7           holders, hundreds if not thousands of patents, most of which  
8           would be very hard for us to identify from the start.

9           But to ascribe to each patent holder who would  
10          claim that their patent implicates our product or to arrive  
11          at an agreement with that person about what they are  
12          entitled to, each and every one of them thinks that they're  
13          entitled to two to five percent of the entire value of this  
14          product. We have in that set of circumstances an impossible  
15          mathematical problem. Certainly there will be no investment  
16          in this product or in the innovation that led to it if that  
17          kind of math is going to rule the day.

18          MS. MICHEL: All right. So we have some agreement  
19          then that our goal here is compensation, but that it's  
20          difficult to figure out how to do that. So we wanted to  
21          start out by talking about reasonable royalties and how  
22          that's done.

23                 Any thoughts on whether the hypothetical

1 negotiation is the right framework to be thinking about what  
2 a reasonable-royalty award ought to be? Rich.

3 DR. GILBERT: Well, I think Mary gave a very good  
4 example which says that a hypothetical negotiation is not  
5 generally going to get you to the right place.

6 MS. MICHEL: Is that because there's a problem in  
7 the fundamental concept or is the problem the way that it's  
8 working out in court?

9 DR. GILBERT: There is a fundamental problem about  
10 the way the market works for complementary innovations, at  
11 least. The complex product that Mary was talking about. To  
12 give you an example, suppose you have two licensors --  
13 suppose there's a product that requires a hundred patents.  
14 And there's one licensor who has 99 patents and another  
15 licensor has one patent. And they both negotiate over how  
16 much they should get.

17 Well, under a plain theory of bargaining, if all  
18 of those patents are essential the person with one patent  
19 has as much of a claim as the person with 99 patents. It  
20 really makes no sense. But that is what the market is going  
21 to do. And that also creates a centrifical, centripical,  
22 whatever the right force is to get people to, in effect,  
23 disburse their patents and have more people negotiating more

1 patent rights, as is what happened with the *Alcatel-Lucent*  
2 case, where they spun off a separate negotiator for three  
3 patents and then brought a case with an argument that their  
4 three MP3 patents should get a very large share, a very  
5 significant share of the value of a computer.

6 So we cannot really rely on market negotiations to  
7 set the standard for what is the right determination of  
8 value, at least for complex products.

9 MS. DOYLE: May I ask a question about that?

10 MS. MICHEL: Sure.

11 MS. DOYLE: Why is that true, when a device like  
12 this that has hundreds of components and is the result of  
13 literally hundreds of negotiations to get the right price  
14 assigned to each and every component, all of which are  
15 necessary to the product?

16 MS. MICHEL: Mark and then Yar.

17 MR. LEMLEY: Let me start by just a brief answer  
18 to Mary's question. I think the dynamic that Rich is  
19 identifying works because of the threat of injunctive  
20 relief, right. So if the owner of any one of those patents  
21 can shut down the whole thing, right, then they do have just  
22 as much power and, therefore, in some abstract that's right  
23 --

1 DR. GILBERT: Yes, exactly. That's a necessary --

2 MR. LEMLEY: And so that's part of the reason why  
3 injunctions in these cases are so problematic, so --

4 MS. DOYLE: But not why negotiations shouldn't  
5 work.

6 MR. LEMLEY: Well, no, but -- right, well, though  
7 the problem is -- right now we're back to Rich's circularity  
8 point, right. So what are people willing to accept in  
9 negotiations? They're willing to accept in negotiations  
10 something that's a function of what they could get in court  
11 if they didn't get it at the table, right. So if we gave  
12 them in court the power to shut down the whole product, then  
13 they can get a pretty substantial amount of money in

1           I just wanted to add a couple of practical  
2 problems, right, which are you're -- to talk about a  
3 negotiation between parties who by hypothesis not only  
4 didn't come to terms but just spent \$5 million a side in  
5 legal fees to take the case all the way to trial, rather  
6 than come to terms, right. There's probably a reason for  
7 that, right.

8           There may well be a case -- maybe the reason is,  
9 you know, idiosyncrasy, right, particular irrationality by a  
10 plaintiff or a defendant. But it may also be the case not  
11 all deals would get made in a world without the lawsuit as a  
12 backstop, right. I mean some patentees wouldn't license  
13 their patents for anything that a patent licensee is willing  
14 to pay. Those deals --

15           MS. MICHEL: Well, yeah, but why? I mean we got  
16 assume economically-rational actors in this hypothetical.  
17



1 can tell you there are other similar instances.

2 I was doing a negotiation this morning where we  
3 were trying to avoid litigation, where it's not the core  
4 line of business of the patentee that's asserting the  
5 patents. And how do I value those patents when they say  
6 they've got patents in another line of business. They're  
7 not in the line of business of, let's say Palm, for example,  
8 they're in some other line of business. It's not a  
9 nonpracticing entity. It's a going concern. And all of a  
10 sudden they reach out and they say: Well, by the way, you  
11 know what, we do have patents on your product.

12 How do I know how to value that? I don't know how  
13 to value that because all I know how to value that is the  
14 cost of litigation. You know, and I want to avoid  
15 litigation, and that's going to be a significant driver.

16 If I look at those numbers that Mary cited, I mean  
17 21.6 million in legal fees and \$6.8 million to settle cases,  
18 I mean that has nothing to do -- I mean she's driving --  
19 it's all legal fees. I mean the cost to her for the  
20 settlements here are kind of ridiculous.

21 MS. MICHEL: Okay. But if we place the  
22 hypothetical negotiation at some other point in time, you're  
23 talking about a time when the parties are facing litigation





1 when the person is a nonpracticing entity in a certain  
2 field, but on the other hand is a significant entity with  
3 significant funds in the area of its core business, what am  
4 I to do in that area and what am I to do let alone and  
5 hypothetical negotiation situation, then if I get into  
6 litigation, any test that I have seen proposed doesn't  
7 necessarily ascribe to me how do I value that.

8 MS. MICHEL: Okay.

9 MR. CHAIKOVSKY: How do I value that technology?

10 MR. ADKINSON: Just to interject one further  
11 question that's broader, is whether there are ways to impose  
12 additional structure on this amorphous hypothetical  
13 negotiation, beyond just particularly the time at which it's  
14 set, that might break Rich's circularity problem by having  
15 more of an objective basis and provide some way of limiting  
16 damages.

17 Perhaps something like -- John had mentioned  
18 something about looking at the value versus the  
19 noninfringing alternative, I think, as one measure. Let me  
20 throw that into the equation.

21 MR. COHEN: So John's had his tent up. Let's go  
22 to John, and you've thought about this.

23 MR. SCHLICHER: Bill said I think damage law fails

1 miserably. I think we do a reasonably good job on lost  
2 profits, which is where the Aro words are invoked. I don't  
3 think we do a good job in other areas in the sense that you  
4 can't tell going in what the award is likely to be. There  
5 is simply too wide a range of possible results that the law  
6 permits.

7           The best I -- I, by the way, do not like the  
8 hypothetical negotiation rule, if that is the exclusive way  
9 to determine damages. It doesn't work at all in situations  
10 where the patent owner wouldn't have granted this personal  
11 license because the person owner could make more money using  
12 the invention than the infringer could, which is what  
13 happened in *Georgia-Pacific*, which is why that's not what  
14 the district court or the court of appeals actually did in  
15 *Georgia-Pacific*. All the court of appeals did is note in  
16 passing at the end: Oh, by the way, the award we've arrived  
17 at in the other way happens to actually be what you might  
18

1 It asks about an amount of money people would have paid in  
2 the future. That's what licenses do, and that's when people  
3 talk about it.

4 For purposes of damages they ought to be based on  
5 the economic value the invention had in the past. We know  
6 what -- with know a lot about what happened, because we  
7 ought to look backwards.

8 And to the extent the hypothetical negotiation  
9 says: Let's look at what these people would have agreed to  
10 pay in the future based on their best guess of how the  
11 economics are going to work out.

12 It seems silly to me to rely on that when we know  
13 actually how things worked out. So I have a whole bunch of  
14 problems with the hypothetical negotiation rule. That being  
15 the one.

16 The best I can do to impose a better rule on it is  
17 to do what I think the Supreme Court said to do when it  
18 created the rule in 1915 and that is: Try to identify an  
19 amount of money, if it's going to be do the value of the  
20 invention had when used by an infringer, try to identify an  
21 amount of money that's the difference between the profits  
22 using this invention allowed that person to get at, and the  
23 profits that person could have gotten at if they used the

1 next best noninfringing thing available to them during that  
2 period. And that amount of value may change during the  
3 period. That's about the best I can do to try to impose  
4 some other rule.

5 MS. MICHEL: Vince.

6 MR. O'BRIEN: Well, I think that I actually like  
7 the hypothetical because I can't think of any other  
8 construct that would help me get to a number, but there are  
9 some things with it and it does have its limits. The  
10 biggest one is the time of negotiation. And they obviously  
11 picked the date of first infringement because it's an easy  
12 time to determine.

13 Aa9 0.00001y00 on00ly00alFviy00al2m10.00000 0.0000 cm10007

1 know what happened. And so you factor that in as well. So  
2 I would say with that part of it would help out a lot if you  
3 could do that.

4 MS. MICHEL: Well, would you think, Vince, that  
5 the cost to the defendant of the closest-noninfringing  
6 alternative might be brought into play in the hypothetical  
7 negotiation as the maximum amount that an accused infringer  
8 would pay?

9 MR. O'BRIEN: Well, it's not necessarily the  
10 maximum, but it's a benchmark, because obviously there's  
11 time, there's risk inherent in that that you would have  
12 discussed at the time of the hypothetical.

13 Now one thing I want to make clear too is the next  
14 best alternative isn't just a noninfringing way of providing  
15 that feature. It could be just provided different mix of  
16 features or cut your price or --

17 MS. MICHEL: Just not include the feature you  
18 mean.

19 MR. O'BRIEN: Pardon?

20 MS. MICHEL: Just not include -- leave the feature  
21 out.

22 MR. O'BRIEN: Leave the feature out all together  
23 and maybe enhance your product some other way or, for that

1 --

2 MS. MICHEL: We could all live without the pop-up  
3 calendar.

4 MR. LEMLEY: In the broadest instance, not even  
5 make that investment and pick your next-best investment.

6 MS. MICHEL: Okay.

7 MR. LEMLEY: Can I say something to that?

8 MS. MICHEL: Yeah, mark.

9 MR. LEMLEY: So I think this is the least-worst of  
10 the alternatives, right, so what John suggests and Vince is  
11 talking about, the approach of the closest-available,  
12 noninfringing alternative, that's a test that gets adopted,  
13 interestingly, in lost profits in *Grain Processing*, but that  
14 the Federal Circuit has not really moved into reasonable  
15 royalties, which is where I think it actually could do its  
16 most good.

17 I do want to note one limitation which makes life  
18 a little more complex. The next-best, noninfringing  
19 alternative, that is an alternative that does not infringe  
20 this patent, may well infringe another patent. And then  
21 you're in an interesting circumstance, right, because if we  
22 really mean an alternative that doesn't infringe or even  
23 arguably infringe any patent anywhere, well, that's going to

1 be almost nothing in the modern world. If we mean only if  
2 we can prove that it really doesn't infringe anybody's  
3 patent, then we're in collateral litigation over whether the  
4 alternative really was not infringing.

5 I think what we mean is that in that circumstance  
6 where what I had was a choice between two alternatives, both  
7 of which turn out to be patented by different people, that I  
8 wouldn't have paid a monopoly price because there were two  
9 alternatives, right. There would have been bargaining that  
10 reflected the fact that if your price was too high, I could  
11 turn to this alternative. But the model starts to become  
12 more complex because we can't just say: Here's the  
13 difference, it's a three-percent difference in price and,  
14 therefore, that's the number. It depends a little bit on  
15 what the parties would have negotiated.

16 MS. MICHEL: Marty.

17 MR. SIMPSON: We've had the case where the closest  
18 available alternative was covered by another patent of ours.

19 (Laughter.)

20 DR. GILBERT: Which means by definition you're  
21 entirely free to go ahead.

22 MR. SIMPSON: Well, also I wanted to come back a  
23 little bit on the time. We have had copyist. And,







1                   MR. SCHLICHER: The only thing I wanted to say is  
2                   that *Grain Processing*, where Frank Easterbrook, for purposes  
3                   of lost profits, did indeed do something really similar to  
4                   what I described. He also actually did the same thing in  
5                   doing the final award, although he didn't explain it that  
6                   way.

7                   The award in that case was indeed reasonable-  
8                   royalty damages. Judge Easterbrook arrived at that amount  
9                   of money by comparing the cost to the infringer of making  
10

1 injunctions. I think it's pervasive, so I agree.

2 But I don't see any necessarily -- if you want to  
3 say hypothetical negotiations, I don't mind. I simply think  
4 that test allows you to focus better.

5 MS. MICHEL: All right. Bill.

6 MR. ROOKLIDGE: I don't think you are going to see  
7 in today's economic environment somebody just willing to  
8 plug the parking meter and say: Go ahead infringe. The  
9 costs of infringement -- the costs of defending infringement  
10 litigation is so high, particularly when you factor in the  
11 costs of discovery, that nobody undertakes defensive patent  
12 litigation for recreational purposes.

13 The other thing I wanted to point out was that  
14 we've got to be careful not to lay down over rigid rules by  
15 say, for example, that defining the value of the  
16 infringement by comparing the infringing product to the  
17 next-best alternative may very well work in the vast  
18 majority of cases, but in some cases there may be alternate  
19 evidence that's available. For example, evidence of what  
20 the infringer's own contribution to that product was and  
21 there may be an easy way to value that contribution that  
22 would end up resulting at, coming at it from a different  
23 angle that would be a different way to do it. And we've got

1 to make sure, especially if we go into any kind of  
2 legislation, that we don't unfairly tie the hands of the  
3 parties and the courts in what they present to get to a  
4 number that is reasonable as far as compensating for the  
5 infringement.

6 MS. MICHEL: Mary.

7 MS. DOYLE: It seems to me that you don't want to  
8 tie their hands, on the one hand; but on the other you want  
9 certainty, because it's just the lack of certainty that has  
10 got us in this mess as far as I'm concerned.

11 I can also -- I would like to comment on the  
12 hypothetical negotiation in the context of standards, where  
13 there -- John, there is no reasonable alternative, there's  
14 only that one. So in the absence of a better-regulated  
15 standard space where patents can't just be declared by the  
16 holder as essential whether they are or are not. I think  
17 this approach that you've been talking about doesn't quite  
18 work.

19 MS. MICHEL: Could we move the timing back to the  
20 standards-setting body decisionmaking, when there were  
21 alternatives available?

22 Anybody got a comment on that?

23 MR. CHAIKOVSKY: I've got a comment there because

1 --

2 MS. MICHEL: Yeah.

3 MR. CHAIKOVSKY: -- the reality is in the current  
4 world: No.

5 MS. MICHEL: Okay.

6 MR. CHAIKOVSKY: I mean you have too many  
7 nonpracticing entities. I mean right now you've got Weiland  
8 (phonetic), you've got PACid --

9 MS. MICHEL: I meant as a manner of law, that we  
10 define the hypothetical negotiation to occur at a time when  
11 the standard setting -- when there are still alternatives  
12 available so we don't have that kind of lock-in problem.

13 MR. LEMLEY: And I think the answer's yes.

14 MS. MICHEL: Yes.

15 MR. LEMLEY: I mean I think actually you solve a  
16 lot of the hold-up component of damages problems in multi-  
17 component industries if you don't allow somebody to capture  
18 value that's not the value intrinsic to their technology but  
19 value that's the result of an irreversible investment made  
20 after that technology was chosen.

21 DR. GILBERT: I think subject to Vince's comment,  
22 though, that there might be risk and timing issues where you  
23 don't -- where you do want to give a preference to the

1 patent owner for creating a fertile environment in which the  
2 product can be developed and to get some share of that, I  
3 think Marty's point on that was a valid point.

4 MS. MICHEL: And, Mary, I cut you off. I'm sorry  
5 about that.

6 MS. DOYLE: That's all right. I'm enjoying the  
7 rest of the conversation, so I'll chime back in when it's  
8 important.

9 MR. CHAIKOVSKY: No, but if you add -- going back  
10 to the hypothetical negotiation being the time, let's say,  
11 prestandard as a matter of law, I mean again I guess I would  
12 say Rich's comments, too, your potential of cutting off in  
13 terms of what's the economic value of this when the  
14 inventors came up with this, especially if you're talking  
15 about solo inventors, they came up with something. And why  
16 shouldn't they be entitled to the value of this if it  
17 continues to grow and grow in value at a later point in  
18 time?

19 MR. O'BRIEN: Well, it depends on whether it grows  
20 --

21 MS. MICHEL: Yes.

22 MR. O'BRIEN: -- as a result of the standard or  
23 because of the inherent value of the technology.





1                   And what I would do in that situation is compare  
2                   the profits a company would make selling whatever product,  
3                   satisfy the standard, to the profits that company would have  
4                   made selling the next-best production that could have become  
5                   a standard way back on day one. That amount of money in a  
6                   lot of cases may be zero, --

7                   MS. DOYLE: Zero, exactly.

8                   MR. SCHLICHER: -- which to my mind is a perfectly  
9                   appropriate damage award in lots of those cases.

10                  MS. MICHEL: Bill.

11                  MR. ROOKLIDGE: Well, just as a practical matter,  
12                  the Federal Circuit has been dithering on that. And I think  
13                  it'd be more accurate to say \$1 would be perfectly accurate  
14                  under the law.

15                  (Laughter.)

16                  MR. ROOKLIDGE: Set -- adjusting the timing of  
17                  that decision is not going to change the fundamental problem  
18                  that both John and Mary have referred to, and that is the  
19                  uncertainty in the damage awards that come from a court  
20                  decision and the resulting effect of that on the  
21                  negotiation. That can only be done within the litigation  
22                  process, not by setting the timing.

23                  MS. MICHEL: That's a good point, yeah.

1 Rich, did you have a comment?

2 DR. GILBERT: I think I do. If we're on this  
3 issue of sunk costs, --

4 MS. MICHEL: Yeah.

5 DR. GILBERT: -- I mean the problem of  
6 expectation, damages and expectations has come into many,  
7 many damage situations, not just patents. And do you  
8 measure damages at the time of the act or how do you  
9 incorporate developments that have come since that time. I  
10 think there's this Janice Joplin's yearbook example of if  
11 you had a signed copy of Janice Joplin's yearbook and  
12 somebody took it way back then, do you get the value of the  
13 yearbook then or do you get the value of the yearbook now.

14 So it's not unique to intellectual property, but  
15 of course the intellectual property does typically invoke  
16 sunk costs and standardization much more. And there I think  
17 I hear agreement among the panelists that the reward should  
18 not incorporate sunk, irreversible investments that were  
19 unrelated to the patent other than the fact that the patent  
20 reads on the technology that people made sunk investments  
21 in.

22 MS. MICHEL: Okay.

23 DR. GILBERT: I think I would agree.



1 MR. O'BRIEN: Correct.

2 MS. DOYLE: It seems to me that we're looking for  
3 a rule that applies everywhere universally, and I still

4

1 extended treatment from the Federal Circuit on that. The  
2 Federal Circuit was presented with that issue in *Integra v.*  
3 *Merck*, and vacated the district court's damages ruling and  
4 sent it back for reconsideration on precisely that point.  
5 The Federal Circuit is sensitive to that issue, but it  
6 hasn't yet been presented with a case that's squarely on  
7 point on that that it can give a real extended treatment to.

8 My guess is that with the current attention on  
9 patent damages in this economic climate, that people are  
10 waiting for that case and we're going to see a lot of amicus  
11 briefs when it comes along. And the Federal Circuit, I



1 form. It helps you in framing your objections, in to  
2 keeping the evidence that's before the jury limited to  
3 what's truly relevant.

4 It helps you frame your jury instructions. It  
5 helps you teach the points that you need to teach the jurors  
6 in order to make them want to rule for your client. But,  
7 most importantly, where it is helpful and where you see it  
8 time and time again is on motions for new trial, motions for  
9 judgment as a matter of law, and on appeal.

10 MS. MICHEL: Bill, let me just ask from your  
11 experience, when the damage award goes to -- when the damage  
12 decision goes to the jury, do the instructions tend to list  
13 all 15 factors, here they are, or are courts better at  
14 picking out and instructing the jury as they go?

15 MR. ROOKLIDGE: You know it's very much decided I  
16 think in part by the feedback that the lawyers give to the  
17 judge. A lot of judges, the knee-jerk response is to use  
18 the form instructions that have all 15 or 16 factors and not  
19 to tailor it to the case.

20 A good instruction will in fact be tailored to the  
21 case, but I have to admit, as an admission against interest  
22 for my position, that having looked at a lot of mock jury  
23 tapes, you will never see the jurors sit down with the

1 instruction and go through the *Georgia-Pacific*



1                   MR. CHAIKOVSKY: So my comment there would be to  
2 Bill's is that I would agree with him, that the *Georgia-*  
3 *Pacific* factors are an excellent framework for litigators as  
4 they go to the courtroom. But I would agree with him, in  
5 having seen so many mock jurors, it's all about the numbers.  
6 I'm not going to necessarily say they leap to the highest  
7 number.

8                   I mean obviously they may leap to the highest  
9 number, but we have a set of rules that they are not looking  
10 at, they do not pay attention to, and that's whether you  
11 actually look at mock juries or actually poll a real jury  
12 after the case, and that has nothing to do with the award  
13 that they are granting. They are looking at the  
14 infringement, who's the good guy, whether's the bad guy,  
15 who's got the white hat, who's got the black hat; and then  
16 the numbers coming out of them. I mean that's all that's  
17 happening.

18                   And so for those that are testifying as to these  
19 hypothetical negotiations and using these factors and maybe  
20 picking out four or five factors that they find to be the  
21 most relevant and, you know, let's get to this highest  
22 number, it's a number. And that number sticks in their  
23 head. And if they then determine that there is an

1 infringement, well, that number stuck in their head. And if  
2 some reason they say, well, the infringement wasn't as bad,  
3 well, maybe we'll go with the lower number that defense  
4 counsel had. Quite frankly, maybe we'll even go with a  
5 number in the middle.

6 But my point here is we can have this academic  
7 discussion, which is great to have in these hearings, but  
8 the realities are we have a system, and quite frankly even  
9 have changed, I mean a juror is not going to necessarily --  
10 because we can all play with these numbers, Bill and myself,  
11 others, Mark can play with these numbers in front of jurors,  
12 et cetera, and/or in front of the Federal Circuit and play  
13 with these numbers and come up with numbers that are, you  
14 know, whatever we would like them to be. And that's where  
15 we live in currently right now.

16 And, as Bill pointed out earlier, yes, the Fed  
17 Circuit's doing a better job. And, as Mary pointed out,  
18 it's not all the Fed Circuit, it's specific judges on the

1 MS. MICHEL: So what do we do?

2 MR. ADKINSON: Can we get all the methodologies  
3 for both apprising and combining the *Georgia-Pacific* factors  
4 so that there are in fact rules that can in fact not  
5 perfectly define and give perfect predictability that would  
6 be desirable, but at least would restrict the heights to  
7 which juries could leap and the depths to which they could  
8 go.

9

1 MS. MICHEL: Yeah. Let me ask Yar one question  
2 first and Bill too, if you have a thought. So if we design  
3 these new rules, right, to limit what could go to the jury,  
4 what is your faith in the courts and the judges willingness  
5 to act as a strong gatekeeper? Do you ever hear, 'Counsel,  
6 that's your problem. Take care of it on cross. I'm going  
7 to let it into the jury? Do you see courts being active in  
8 --

9 MR. CHAIKOVSKY: It depends --

10 MS. MICHEL: -- keeping evidence out?

11 MR. CHAIKOVSKY: It depends on the judge. You  
12 know, some are going to be gatekeepers, some are not going  
13 to be gatekeepers. The realities are, as Bill has  
14 mentioned, you also have the opportunity in motions for new  
15 trial or JMOL for the court to actually take an opportunity  
16 there to overturn a jury's verdict.

17 I wouldn't count on it. That's just not a place  
18 where I would say, oh, okay, let's -- judges today could be  
19 stronger gatekeepers with respect to the evidence that is  
20 being provided in damages cases and say: Well, look, I'm  
21 not going to let this in, whether it's a motions in limine  
22 or even during the course of the trial. The judges could be  
23 greater gatekeepers than they currently are. Are they? No,

1 I don't think they are.

2 And we see these -- and, again, it depends on  
3 venue. It depends on the judge. It depends on a lot of  
4 things, but we see a lot of stuff get in that I don't think  
5 necessarily should get in.

6 MS. MICHEL: Bill, what's your experience in how  
7 willing judges are to be gatekeepers?

8 MR. ROOKLIDGE: It's mixed. I think like Yar has  
9 observed, it's mixed. But I think what we are seeing also,  
10 is in the past lawyers have not been as active in attempting  
11 to keep this stuff out, not perceiving that they have the  
12 tools to do so.

13 It was very much like the pre-eBay cases. A lot  
14 of patent lawyers had been practicing their entire careers  
15 and had no idea that there was this case out there,  
16 *Weinberger versus Romero-Barcelo*, that identified what the  
17 standards were for an injunction, and were blithely moving  
18 along as if a statement out of the Federal Circuit law about  
19 the standard rule was the be-all and end-all of injunction  
20 law.

21 If lawyers get sensitized that they have a job to  
22 do in presenting evidence and defending against damages  
23 cases, combine that with the fact that the Federal Circuit's

1 being more active, and it is being more active in damages  
2 cases, I think we're going to see a great improvement and I  
3 think we're already seeing a great improvement because of  
4 the increasing attention paid to these issues.

5 MS. MICHEL: Okay. Mark, you've had your tent up  
6 for a while.

7 MR. LEMLEY: Let me raise one other thing that I  
8 think contributes to the problem and then two solutions.  
9 The other thing that I think contributes to the problem is  
10 not too much evidence coming in but on the defendant's side  
11 too little.

12 As a litigator you do not want to spend a  
13 substantial portion of your case in a unified presentation  
14 on: Here's why you shouldn't make me pay very much money,  
15 as opposed to: Here's why the patent is invalid or not  
16 infringed, right.

17 So two solutions, one of which flows from that, is  
18 bifurcation of damages. Right. I think one -- the single  
19 thing we could do that would get more rigor into damages is  
20 separated out from the rest of the trial and make people  
21 actually try just the damages case.

22 The second thing I think that we ought to do comes  
23 out of what Yar and Bill are saying. The problem with the

1        *Georgia-Pacific* factors is not that they don't encompass the  
2        interesting questions, right, it's that there are 15 of  
3        them.

4                Now really there are three of them, right. Really  
5        three things matter. And if you parse *Georgia-Pacific* down,  
6        you can get them into three, right. One is what's the value  
7        of the technology compared to the next-available  
8        alternative. The second is how many different things have  
9        to be combined to make that technology. That is the  
10       appropriationment question, right. Are there other patents  
11       that have to be included, other contributors, so forth. And  
12       third is what has the market actually done, right. Have  
13       people in other similar cases negotiated a particular  
14       royalty, and so forth.

15               If you structure the damages inquiry not as:  
16       Here's 15 factors, jury, pick some and choose a number, but  
17       as: These are the things you have to determine in order to  
18       get to the number, you might or might not actually persuade  
19       a jury to walk through those three factors, I don't know.  
20       Bill may be right, that the jury's going to pick a number  
21       based on who they like or don't like. But you will do is  
22       you will enable judges to grant judgment as a matter of law.  
23       You will enable the Federal Circuit to reverse in cases







1 separate rule, which I thought -- you know, I've told you  
2 the best I can do, then at least you have a chance. And  
3 then at least you have the possibility of dealing with the  
4 problem of companies whose profits are enormous and whose  
5 revenue are enormous. You could, ignoring one subtle  
6 detail, require a jury, for example, to figure out damages  
7 based on a single unit, okay. There's no reason they need  
8 to know the total number of units to do reasonable-royalty  
9 damages with one exception that the law doesn't recognize  
10 anyway.

11 So I think -- I really think it's -- obviously if  
12 you include all the *Georgia-Pacific* factors, then they do  
13 get to know about the infringer's total profits and they do  
14 get to know about the extent of total use and they get to  
15 know about the only revenue. So I think in order to arrive  
16 at a place, at a system that allows us to get a reasonable  
17 amount of money, we simply have got to get rid of them, with  
18 all due respect to Bill.

19 MS. MICHEL: Bill. And, Bill, what do you think  
20 about bifurcation?

21 MR. ROOKLIDGE: Well, I think bifurcation -- well,  
22 first of all, let's make sure we're using our terms  
23 correctly.



1           MR. ADKINSON: Beyond the structural question of  
2 having a general structure to impose *Georgia-Pacific*, we  
3 also have questions about specific factors. And Mark  
4 usefully reduced the number of factors dramatically. I  
5 wanted to ask, A, the general question of whether there are  
6 particular factors that people think can be misused or are  
7 misused in the process and, in particular, I wanted to focus  
8 on average royalty rates for an industry, which are  
9 sometimes proposed or rates on comparable licenses, and  
10 whether you really can have licenses that are comparable  
11 given the heterogeneity in licenses and rates on different  
12 types of different patents, where the patents may be  
13 heterogenous.

14           And, Vince, you had had your tent up before, so  
15 with that and whatever else you were --

16           MR. O'BRIEN: Well, let's go onto your question.  
17 I think royalty rates on industry -- industry rates or so-  
18 called comparable licenses are -- when I work for the  
19 defendants it's one of the few ways you have of dealing with  
20 this throwing numbers around the jury room. This is one  
21 thing out bring them back into reality, you know.

22           And now, sure, they're not comparables, but if I  
23 have an industry, say, semiconductors where licensing is

1 always done at less than one percent or some lump sum or  
2 cross-licensing, and the other side is proposing an eight-  
3 percent royalty rate, I need to be able to look at other  
4 licenses. And I think right now, if anything, the courts  
5 are too restrictive. They try to peel back, you know, the  
6 number of licenses you can work at.

7 Now the other thing on *Georgia-Pacific*, though,  
8 that I think is problematic is its emphasis on the  
9 profitability of the product. I mean the value of a  
10 component has little to do with the profitability of the  
11 product. You know, if I'm building a house, it doesn't --  
12 you know the profit I make on that house isn't going to  
13 affect what I pay for a hammer. And it gets us misguided.  
14 It gets us into the big-numbers problem, because the  
15 plaintiff always talks about gross margin and the defendant  
16 says net. And it just gets us off on the wrong -- we're off  
17 on the wrong foot.

18 And I would back up to part of what John said but  
19 also what Mark said, is it would be much better having a  
20 conceptual framework, the three things you look -- the three  
21 areas you should examine, as opposed to this list of things  
22 we marched through, which is also missing the single most  
23 important thing of all, and that is the next-best

1 alternative. Often that just throws *Georgia-Pacific* right  
2 out of the window. And without it, G-P's untethered.

3 MR. ADKINSON: Marty.

4 MR. SIMPSON: Well, I would be cautious about  
5 throwing out the *Georgia-Pacific* factors when we're not  
6 replacing them with something. I think you need something  
7 that's practical for a jury or a judge who's sitting on the  
8 bench.

9 And now if you want to group them, or something  
10 like that, like Mark was suggesting, to rearrange them, you  
11 can do that, to say: Consider this group together, consider  
12 this group together, something like that. You might do  
13 something that you think improves it, but you have to have  
14 something to focus the discussion on when the trier of fact  
15 is trying to figure out: What do I do with this?

16 And one of the things I come back to is we do  
17 license negotiations all the time and what we're asking is:  
18 Give us a business plan, we want to see what your  
19 profitability is. That's the question. And it's a  
20 profitability based on what we're licensing.

21 Now typically in the areas we work in, we are  
22 licensing them the main idea, that is the product. So our  
23 focus on profitability is -- that really is the problem.

1           And then you work down from there on what a reasonable  
2           royalty is.

3                       So I think you need to have something in mind,  
4           whether it's the suppositious negotiation, or, if you can't  
5           get there, say: Okay, here are some factors. If you want  
6           to regroup them, regroup them. But you need to focus the  
7           discussion in some way.

8                       MR. ADKINSON: Mark, I got the impression actually  
9           much earlier that you were suggesting that we might focus on  
10          the noninfringing alternative as an alternative to the  
11          hypothetical negotiation itself. Is that --

12                      MR. LEMLEY: Right. So I mean my worry about the  
13          kind of actual comparables, I think actual comparables have  
14          a place. The difficulty is -- well, the first difficulty is  
15          that they don't take account of actually -- the assumption  
16          that the patents are valid and infringed, right.

17                      So if every -- if no one pays more than one

1           somewhere in between.

2                       And so I think that that's a concept that's both  
3           correct in the law and really hard to explain to the jury.  
4           So now we have the alternative to the throw-around, big  
5           numbers and get it into the jury box, we have the sort of  
6           throw around the small numbers.  If you get up and tell  
7           someone:  Hey, nobody's paid more than one percent, even  
8           though logically that should imply that you should pay four  
9           percent in this case, people aren't likely to get it in the  
10          jury box, right.  And so I worry a little bit about how  
11          those numbers can mislead.

12                      You also see those numbers -- there are all sorts  
13          of inconsistencies depending on circumstances, right.  So  
14          there are lots of circumstances in which people pay for a  
15          nonexclusive license in a particular field of use for a  
16          patent more than the purchaser of that patent paid for the  
17          entire patent.  And that suggests that there's an  
18          instability in the choice of the number you're going to use  
19          as to what the right comparable royalty is in this  
20          negotiation.

21                      MR. ADKINSON:  Mary.

22                      MS. DOYLE:  Well, there are a number of kind of --  
23          the assumption that the patent is infringed invalid I think



1 does go into -- you wouldn't pay anything that you didn't  
2 think was infringed and invalid. So in my view I do think  
3 that similar agreements reached between parties absent  
4 negotiation is good evidence of what the defendant ought to  
5 be paying in a case where the plaintiff has prevailed.

6 And I think we continue to struggle here with  
7 defining how patent damages should be calculated. We have  
8 -- I know you argue that lawyers should get better, well,  
9 I'll tell you this \$21 million thinks that lawyers think  
10 they're pretty good, doing the right thing already, and  
11 they're many people that you know.

12 So it seems to me that 'lawyers should get better'  
13 isn't an adequate solution. It seems to me that  
14 'injunctions should be issued in every case where  
15 infringement and invalidity are proved' doesn't seem to me  
16 to work either -- because it works very nefarious results in  
17 settlement negotiations in my experience.

18 And I think the hypothetical negotiation in the  
19 end seems -- I mean I think *Georgia-Pacific* is trying to

1           inflated -- or a willingness to settle cases that shouldn't  
2           be settled at all because you can't afford to pay \$42  
3           million instead of \$21 million in the course of your  
4           defending yourself over a number of years.

5                         So I have to say that I find myself back to  
6           apportionment. And it seems to me that apportionment, just  
7           by itself, as a rule standing alone is the only thing that  
8           anyone's come up with that has half a chance of focusing the  
9           discussion.

10                        MS. MICHEL: Okay. We are going to -- John, then  
11           Bill briefly. We will come back to apportionment and the  
12           entire market value rule right after break. So if you have  
13           any -- we want to be fresh for that discussion, I think.

14                        So, John or Bill, if you have any comments on

1 "advantages" is used in dozens and dozens of apportionment  
2 cases. That's a very important word. That decision led to  
3 the change in the Patent Act in 1922, to put that measure of  
4 damages in the statute. In about 1933 or 1935, the only  
5 other time the Supreme Court's had a crack at this, it said  
6 it's okay to do it that way, but the measure of damages --  
7 measure the damages by the -- I forget the exact words --  
8 but increase in revenue or amount of cost savings,  
9 essentially, which is the same concept in others.

10 And that formula is Factor 9 of *Georgia-Pacific*.  
11 The utility and advantages of the patent over old modes and  
12 devices, if any, that have been used for working out similar  
13 results. That's what the Supreme Court said the test was.  
14 If you want to keep the list, fine. Narrow it down to nine.  
15 And I think you have to think 13, Mark. I'm not sure of the  
16 other one you want to include. And then you have a  
17 reasonable standard that's entirely consistent with the law,  
18 entirely consistent with the intent, and it allows you to do  
19 something that has some focus.

20 MS. MICHEL: Bill.

21 MR. ROOKLIDGE: Apparently I didn't make my  
22 position clear enough. My position is not solely that  
23 lawyers should get better but that trial judges should get





1 the sale of some entire product. They don't make the  
2 product.

3 And so the concept of the entire market value rule  
4 gets accidentally transported over from lost profits cases,  
5 where it makes sense, to reasonable-royalty cases via a  
6 Federal Circuit -- a dictum in a Federal Circuit case  
7 involving lost profits that says: Why don't we do this in  
8 both lost profits and reasonable royalty cases? In fact  
9 they didn't do it in both, but after they said in their  
10 opinion that we do it in both, then they started to do it in  
11 both.

12 And the problem is, unless you believe that this  
13 is really the only thing that contributes any value to the  
14nly thing that contribute 0.0000 0.0000 cm0.00 0.00 0.00 65hFe

1 basically engaging in royalty stacking by definition  
2 whenever we do entire market value rule in reasonable  
3 royalty cases.

4 MS. MICHEL: Mark, given that, if you're right,  
5 what does that mean about how we should think about  
6 apportionment in the context of reasonable royalties?

7 MR. LEMLEY: Well, I think the answer is your --  
8 you've got to do apportionment. And to some extent, of  
9 course courts always already do apportionment in a  
10 reasonable-royalty case, they just don't do it very well,  
11 right. So there's a reason you get a percentage of the  
12 value of the production as your royalty award and not a  
13 hundred percent, right. That reason presumably is we  
14 recognize that there are other contributors to the success  
15 of the product that need to go into the calculus.

16 But if you just phrase it as a percentage number,  
17 if you just say as somebody was saying here: Well,  
18 Microsoft Windows and Microsoft Office together have made a  
19 quarter of a trillion dollars over the last 17 years, all I  
20 want is one percent of that or 2.5 billion, you don't get a  
21 sort of very clearly articulated reasoning, right. You  
22 don't get any thinking about what it is that this patent  
23 contributes relative to all of the other contributors to the





1 specifically call out and require courts to engage in a  
2 process of saying: Okay, the patentee is -- the patent is  
3 one component of the product that contributes to its  
4 success, but there are others as well. And we need to pay  
5 attention to those others in deciding how much the patentee  
6 should get paid. I think that's the right thing to do,  
7 because if you don't do that, then you just end up fighting  
8 over broader versus narrow royalty bases and what the right  
9 percentage of that royalty base is without any context,  
10 without any specific evidence about what the other  
11 contributors to the value of the product are.

12 MS. MICHEL: Okay, Vince.

13 MR. O'BRIEN: Yeah. I think that in the  
14 reasonable royalty context if you start talking about the  
15 entire market value rule you've made a mistake right there.  
16 You know, you should just look at industry practices, I  
17 think is the best thing to do. If they're using -- and it  
18 gets back to this base issue. And, you know, if the royalty  
19 rates you've been looking at are based on the component  
20 base, then that's what you apply it to. if it's based on the  
21 full product, you do it to that.

22 Now it seems to me, though, you can -- if you get  
23 rid of the hold-up problem, you've solved I think the

1       apportionment problem in almost every case except where you  
2       have the, you know, say ten features that are necessary to  
3       sell the product but not sufficient by themselves. And so  
4       the guy is sitting there, he's got nine of the features,  
5       either they developed themselves or they licensed. And  
6       somebody shows up with the tenth one and says: Hey, without  
7       your -- without my -- without a license from me, you can't  
8       sell your product. And he wants to grab all the value of  
9       that. And that's the difficult problem at that point.

10                In the real world, most of the time everybody's in  
11       the industry and they solve the problem through cross-  
12       licensing and they work it out. It's when you introduce the  
13       nonpracticing entity into that equation, which would also  
14       include people who practice in another area but not in that  
15       area, then you've got someone who can sit there and hang in  
16       there and say, no, I want it all.

17                And, quite frankly, I don't have an answer for it  
18       because I don't like ten features, you know, divide the  
19       value by the ten, and I don't like any of the suggested  
20       alternatives, but it is a serious problem.

21                MS. MICHEL: Okay. Rich.

22                DR. GILBERT: Well, at one level this issue of the  
23       total market value rule versus apportionment is like saying



For T

1 doing any damage calculation, even if you don't have a  
2 complicated, complex technology. Even though some people  
3 will try to sell you formulas for doing damages; but in any  
4 serious, complicated case it's going to have to be an  
5 individual investigation of the factors.

6 But what I would like to see is something along  
7 the lines of a warning label on a pharmaceutical product,  
8 saying that do this damage calculation incorrectly, it can  
9 be hazardous to our collective health, and some advice that  
10 one patent doesn't mean you have a claim on the entire  
11 product.

12 MS. MICHEL: This apportionment concept described  
13 the way you described it seems to involve taking into  
14 consideration the contribution that the invention makes to  
15 the entire product. Is it anything more than that?

16 DR. GILBERT: Well, it's certainly going to be  
17 more than that in any specific analysis, but the underlying  
18 principle I feel is what is the contribution, much of what  
19 we've discussed earlier: What is the incremental  
20 contribution relative to the next-best noninfringing  
21 alternative.

22 MS. MICHEL: Okay. I'm just wondering if we need  
23 a fancy word for that. That seems to be upsetting people.

1 DR. GILBERT: A buzzword.

2 MS. MICHEL: Right.

3 DR. GILBERT: The delta.

4 MS. MICHEL: Okay.

5 MS. MICHEL: Let's call it the delta. Okay, what  
6 is your dealt.

7 MS. MICHEL: Okay. All right, Mary.

8 MS. DOYLE: I guess I'm struggling with the  
9 following proposition that I've raised a couple times and  
10 perhaps haven't explained as well as I can or ought to. The  
11 product I have in my hand is a Palm Centro and it has 800 or  
12 900 c y0 cm0.00 0.00 0.00 rgBT57.6000 447.9600 TD()Tj0.0000 0.0000 T



1 windshield wiper or an intermittent windshield wiper,  
2 whatever the variation on the theme is today. Well, okay,  
3 you wouldn't, but you wouldn't buy a car without tires and  
4 an engine and 1700 other things either.

5 MS. MICHEL: Right.

6 MS. DOYLE: So people keep trying to claim, as



1 MS. MICHEL: No, that's very helpful.

2 Okay. So say the patent relates to a small  
3 feature within the entire device there, and you want to  
4 apply the damages to the small feature. How mechanistically  
5 -- because, as you point out, those kinds of negotiations  
6 and thought processes have already occurred. How  
7 mechanistically do we go through that damages calculation?  
8 Are you talking about make the base of the reasonable  
9 royalty calculation just that -- just that feature and then  
10 applying a rate to that or are you talking about something  
11 else?

12 MS. DOYLE: I think I'm talking about the former,  
13 only because in my simplistic world what I would like to do  
14 is to ask the inventor to go talk to the person who produces  
15 the product to which their invention relates.

16 So I get knocking on our door all the time people  
17 who have invented something that relates to a chip. Nobody  
18 at Palm knows anything about the chip other than what it  
19 ultimately will do. Doesn't know anything about the guts of  
20 a chip. We are not qualified to say whether or not Palm  
21 infringes or the supplier of that chip infringes. We'd like  
22 the person to go visit the chip vendor.

23 But they resolutely refuse to do that, which of

1 course renders negotiations almost impossible. No one has  
2 the information necessary to do it. And they're driven to  
3 do that because they are entitled to attach whatever royalty  
4 rate they think is appropriate to the entire value of the  
5 product. They can go to any place in the chain they want,  
6 so long as it incorporates their component. And of course  
7 they're going to go to the end.

8 MS. MICHEL: So is the complaint is that they're  
9 trying to make the entire product the base and apply the --

10 MS. DOYLE: The complaint is that --

11 MS. MICHEL: -- raise the satisfaction --

12 MS. DOYLE: -- they're trying to benefit from the  
13 inventions of many, including Palm, --

14 MS. MICHEL: Okay.

15 MS. DOYLE: -- in seeking recompense, compensation  
16 for the invention they made, which may and often is trivial  
17 or, if not trivial, but it may be valid, but I haven't seen  
18 one yet.

19 MS. MICHEL: Okay. At some point when we're  
20 thinking about how to measure this royalty, do the  
21 calculation and identify the space, don't we need to  
22 identify some kind of measurable product. Maybe it's just a  
23 chip, but something that we can identify and associate a

1 cost with. If the invention is only a circuit on the chip,  
2 we can't have the base be a circuit because that's not  
3 something we value.

4 We sell the chip. The chip is a product in  
5 commerce and, therefore, we can assist a price with it and  
6 come up with a base; does that make sense --

7 MS. DOYLE: And perhaps that's the product in  
8 commerce made -- I haven't thought this through. But I can  
9 see that the apportionment argument could be reduced to an  
10 absurd point, where you could never negotiate anything. But  
11 I guess I think about it because of the world I come from in  
12 terms of the components, yes.

13 MS. MICHEL: Okay. All right.

14 Bill.

15 MR. ROOKLIDGE: Well, under the current law of  
16

1 alternative. The problem I think with what you've described  
2 is it focused not on the value but the cost of individual  
3 component. And typically cost and value to the overall  
4 device can be different.

5 I think what's proper -- and we need to get this  
6 right because royalty stacking -- excessive royalty stacking  
7 is a problem. It's a problem in your industry and it's a  
8 problem in other industries. And the courts need to get  
9 this right. The way to do that seems to be not to focus on  
10 the value of the invention but the value of the use made of  
11 the invention by the infringer.

12 MS. MICHEL: All right. Let's -- John.

13 MR. SCHLICHER: "Apportionment" is a word that was  
14 used in the cases for from about 1820 to, roughly, 1966 to  
15 describe how damages are determined when they are measured  
16 by an infringer's profits. And the word was used to do what  
17 I have said so many times, that the value, the additional  
18 value -- that we should have a word for it. Rich had a good  
19 one: Incremental value.

20 MS. MICHEL: "Delta", he said.

21 DR. GILBERT: Delta.

22 MR. SCHLICHER: Or delta, that's even shorter.

23 The incremental-value rule. Apportionment in the law never

1 had anything to do with figuring out how to separate out  
2 from the selling price of a product some portion of the  
3 price, which we will start from, to then go to a number.  
4 Apportionment was always take what actually happened,  
5 infringer sold a product, it made a certain amount of money.  
6 How much of that money was the result of using this  
7 invention, compared to doing it the next-best way? The  
8 next-best way might have added a penny to the selling price.  
9 It might have reduced -- or the next-best way might mean  
10 selling price was a penny less. And, if so, you take the  
11 revenue, multiply it by the number of units times a penny,  
12 and that's the damages.

13 So -- and I use apportionment. And what happened  
14 was the Supreme Court wrongly said, in my mind, that that's  
15 not available anymore. So people stopped reading those  
16 cases. In *Grain Processing*, the Federal Circuit cited all  
17 those cases, so I think they're still relevant.

18 But, anyway, when I say apportionment I mean the  
19 rule. What do you do when the invention is a small  
20 component? The law is that if there is a component in  
21

1           MR. SCHLICHER: -- the current right term. But  
2 all of the novelty in the invention is in the memory chip.  
3 Then it shouldn't be too hard for a lawyer to say to  
4 themselves: Well, a noninfringing alternative to that  
5 invention is a PDA with a different kind of memory chip.

6           So if -- and actually the way it should work in  
7 practice is if the patent owner has sued the PDA seller,  
8 damages ought to be the difference between the profits that  
9 company would have made selling a PDA with that memory chip  
10 minus the profits the company would have made, and I would  
11 use net profits for both, using the next-best kind of memory  
12 chip it would have.

13           And when you're doing that -- let me just say the  
14 other thing, if they sue the memory chip seller, then the  
15 test ought to be it's the difference between the price of  
16 that memory chip with the invention minus the price of the  
17 next-best chip that company could have made without the  
18 patented feature.

19           In the first case, where the PDA seller is the

1 or if the parties know that that's the use that's going to  
2 be made of it, because while it's -- and Rich is way better  
3 at this than I am, but economically that price by definition  
4 will reflect to some extent the value of that invention to  
5 the PDA buyer, I think.

6 It might be a little more, but it's not going to  
7 be very much more, because you'll pay -- you know, you'll  
8 pay a little less than its real value to you. So in -- in  
9 Mary's case, when she is faced with these people, the number  
10 she is talking about, and I don't know if you were talking  
11 about a different thing, but the price at which Palm, if  
12 we're using them as an example, bought that little  
13 component, ought to be very important in determining  
14 damages.

15 Now it's not all the total --

16 MS. DOYLE: It's never mentioned.

17 MR. SCHLICHER: -- it's not the total price of  
18 that chip, it's a part of it, but that's really good -- a  
19 good starting place.

20 MS. MICHEL: Okay, Marty

21 MR. SIMPSON: In license negotiations you deal  
22 with royalty stacking as a normal topic. And what the  
23 parties are doing is taking a look at, okay, what else

1 applies in the economic situation, coming out with, again,  
2 what's a profitability and then coming back from that and  
3 getting a reasonable royalty.

4 If they're paying a lot of royalties to other  
5 people, the profitability will be less. And the parties can  
6 choose their royalty base. The Supreme Court has let the  
7 parties choose a royalty base larger than the claimed  
8 invention. In this discussion that's an analog to the  
9 entire market value rule. The parties can choose a royalty  
10 base smaller than the claimed invention if, again, it's for  
11 their convenience. In this discussion that's apportionment,  
12 but that's part of a negotiation, of trying to find for the  
13 parties to come to a negotiation about what a reasonable  
14 value is.

15 MS. MICHEL: So what you're suggesting then is the  
16 base ought to be driven by what would have happened in the  
17 hypothetical negotiation rather than a legal rule?

18 MR. SIMPSON: If you can get the hypothetical  
19 negotiation in a way that is given to the trier of fact,  
20 that will actually, I think, answer the question.

21 If, on the other hand, you can't get that and you  
22 have to have factors that go to the jury, then I'm looking  
23 at it and thinking, well, the parties can choose a royalty



1 base larger than or smaller than. So it seems to me that  
2 what the *Georgia-Pacific* factors are telling you is  
3 something that's common sense in a normal negotiation. You  
4 can do that, however, as a patent attorney for over 30  
5 years, you will always start with the claimed invention and  
6 then you will work from there.

7 MS. MICHEL: Let me ask about that. The claimed  
8 invention, there have been voices in the debate that suggest  
9 the base needs to be coterminous with the invention as  
10 claimed, the scope of the claim. How do we deal with the  
11 issue of the invention is a feature on a processor? But I  
12 can write a claim, a work station, including a processor  
13 having this feature. Now the scope of my claim is now the  
14 work station, not the processor. Does that legal construct  
15 therefore drive the base to be the work station? Just  
16 because I've claimed it that way?

17 MR. SCHLICHER: Mary, -- can I interject --

18 MS. MICHEL: Well, actually let me hear from  
19 Marty.

20 MR. SIMPSON: Well, first, if that's the claimed  
21 invention, you can take a look at it if you want to choose  
22 that as a royalty base and the parties look at it or the  
23 trier of fact looks at it and says this is minuscule

1 compared to the value of what you're selling. Then you got  
2 a 0.000 something as the royalty rate if that's your base.

3 MS. MICHEL: But -- Mark.

4 MR. LEMLEY: So I mean I think that's -- and this  
5 goes back to Richard's point about equivalency, which is  
6 entirely true in economic theory and just doesn't work in  
7 practice, right?

8 DR. GILBERT: Lots of things --

9 MR. LEMLEY: Because it's much easier to persuade  
10 somebody to give a very small percentage of a very large  
11 base, because people, you know, jurors but also judges don't  
12 understand the kind of law of small percentages, right.  
13 It's why people buy lottery tickets.

14 And it can't be the case that the way you write  
15 your patent claim to an otherwise identical invention should  
16 give you a different royalty.

17 MS. DOYLE: Result.

18 MR. SIMPSON: Right. The fact that I chose to  
19 claim a car containing an intermittent windshield wiper  
20 rather than an intermittent windshield wiper should not give  
21 me a larger royalty at the end of the day, but, as a  
22 practical matter, it tends to do so.

23 MS. MICHEL: Should it drive the math? Should the

1 --

2 MS. DOYLE: No.

3 MS. MICHEL: -- way I wrote -- and explain why --  
4 should the way I wrote the claim, if I recite the car, mean  
5 that I have to have the base be the car and the royalty be  
6 something -- the rate be something really small? Can we  
7 disconnect those?

8 MR. SIMPSON: Yeah, I think we have to disconnect  
9 them, right, because in the real world those two numbers  
10 will not be equivalent, right. It should -- you're right,  
11 it should be .0000 whatever of a really high number or one  
12 percent of a much smaller number, but, as a practical  
13 matter, those aren't going to be the same.

14 And so I think the focus has got to be on what  
15 we've been talking about is the incremental contribution of  
16 the patented invention. What that means is that the -- you  
17 know, the Federal Circuit repeatedly intones: You can never  
18 under any circumstances focus on the point of novelty of the  
19 invention. But, as a practical matter, there are five or  
20 six different legal doctrines in which we already focus on  
21 the point of novelty of the invention. And this is one I  
22 think where, as a practical matter, you have no choice but  
23 to focus on the point of novelty of the invention.

1                   You can't just say: Oh, this is a patent on a  
2 ~~portion of a car, so we'll~~-give damages for the car. You've got to say  
3                   the only novel feature of this patent claim is the  
4                   intermittent windshield wiper.

5                   MS. MICHEL: Okay. When we do that, when we try  
6                   to determine our base based on the convenience of the  
7                   parties, what makes sense in commerce, and the invention  
8                   itself, when that leads you to a base of a windshield wiper  
9                   rather than a car, but my claim is written as a car, is that  
10                  apportionment? Is that what people are meaning by  
11                  apportionment? Any --

12                  MR. SIMPSON: I mean I guess it involves  
13 ~~be selling a windshield, right? No, that's not what we do. If you're~~  
14                  measuring the base of the car, if you're -- I mean I think  
15                  of it as -- I think of apportionment as actually not  
16 ~~San th~~~~worrying not so much, a problem, is that situation. If people~~  
17                  are selling windshield wipers separately, right? Yes sense in com

1       that same situation, but we only sell the thing as an  
2       integrated product, right. So it's not the chip that Mary  
3       happened to import, it's one of the six cool features of the  
4       screen, right. The sort of way you move your fingers to  
5       cause some particular thing to happen. But we don't sell,  
6       you know, screens with five of the six cool features and  
7       screens with six of the six cool features. We sell screens.  
8       And so we've got to figure out, well, all right, how much  
9       did that one value, that one more add relative to all these  
10      other things, and we've got to do it in a world, in a  
11      circumstance in which we don't have the market signal of  
12      people paying just for that one individual piece.

13               MS. MICHEL: Okay.

14               MR. SIMPSON: And that I think is where  
15      apportionment matters.

16               MS. MICHEL: All right. Rich.

17               DR. GILBERT: Yeah. I think on the issue of the  
18      base, we could interpret apportionment to mean: Apply the  
19      royalty to the smallest standalone -- or potential  
20      standalone product. In your case, for example, an  
21      integrated circuit inside the Palm.

22               In the *Alcatel-Lucent* case it would be the Windows  
23      Operating System instead of the computer, and the judge in

1           that case pointed that out.

2                       That's one issue. I do feel that if you -- I mean  
3           subject to Mark's, I think, informed judgment that if you do  
4           the analysis correctly, as John pointed out, I don't think  
5           it should make a huge difference on where you come out,  
6           although I do recognize that in practice it very well may.

7                       There's another apportionment issue which even as  
8           a theoretical matter is a real apportionment problem and has  
9           to be dealt with. And that is, I'll bet in your Palm there  
10          is a bunch of patents that if you did not have the rights to  
11          use them you couldn't sell the Palm. And they are all  
12          absolutely essential, do not have a replacement, do not have  
13          a next-best alternative. The next-best alternative is you  
14          don't sell your Palm. And how do you --

15                      MS. DOYLE: A radio chip.

16                      DR. GILBERT: So I mean it's certainly true, I  
17          mean obviously it's clearly true for, say, a microprocessor.  
18          There are many, many technologies in the microprocessor.  
19          You have to have them or you don't make a microprocessor.  
20          And how do you apportion in that case. And there it's my  
21          view that you have to figure out some way to divide value  
22          among different essential patents to go back. Our delta in  
23          that case can be the entire value of the patent.

1                   Now what Marty says is fine. If you got everybody  
2                   into the room, say there were a hundred essential patents,  
3                   and you got everyone into the room and said: Let's work  
4                   this out and let's figure out what each one of us should  
5                   have as a reasonable royalty, you might get to a reasonable  
6                   number where if it has the product as a value of \$100 and  
7                   there's a hundred patents, each one gets a dollar, or  
8                   something like that, or minus whatever else is needed to  
9                   produce the product.

10                   But the problem gets, I think, particularly  
11                   difficult when one person pops up and says: I don't care  
12                   that you have a hundred essential patents to make that  
13                   product, I have one, and you can't sell this without my  
14                   patent, because I can perhaps get an injunction against your  
15

1       You look at those 50 features that are necessary but not  
2       sufficient. You can say what was paid in the past for  
3       those. And then you say why isn't this fifty-first feature  
4       in that same group, and you look at the range and you pick a  
5       number out.

6               DR. GILBERT: Well, Vince, because of circularity  
7       again. Remember, somebody could have gotten a really good  
8       deal --

9               MR. O'BRIEN: No, but that's better than just --  
10      that's better than be untethered, where you say: I want all  
11      of your profits.

12              DR. GILBERT: Well, I'll agree to that, yeah, but  
13      it's not the best outcome.

14              MS. MICHEL: John, and then I'll ask a wrap-up  
15      question.

16              MR. SCHLICHER: As I understand the law there is  
17      no rule that says the form of the claim requires that the  
18      base for determining reasonable royalty damages be anything.  
19      I think a court is free to do. There was an old rule in  
20      some infringer lost profits case that might lead people to  
21      believe that, but I have never seen it in the reasonable  
22      royalty cases. In early reasonable royalty cases in the  
23      start of the last century, courts confronted that problem,



1           solved it, and it went away.

2                   MS. MICHEL: Thank you. That's helpful.

3                   MR. SCHLICHER: It should have gone away.

4           Apparently it didn't.

5                   MS. MICHEL: Maybe it came back.

6                   All right. I think we had some consensus on some  
7           concepts here, if we don't worry too much about terminology.  
8           That's where I'm coming down on this.

9                   So let me ask as a wrap-up on reasonable  
10          royalties: Given where we are now in this discussion that  
11          we had, do juries and courts and parties need better  
12          guidance on how reasonable royalties ought to be calculated?  
13          And, if so, what should be the source of that guidance,  
14          legislation, judges, FTC reports, and any thoughts on where  
15          do we go from here?

16                   B555.

1 speed that common law process along. And I think we can  
2 make a dramatic improvement in the law of patent  
3 infringement damages through that process.

4 MS. MICHEL: Mark.

5 MR. LEMLEY: What he said.

6 MS. MICHEL: Really?

7 MR. LEMLEY: Really.

8 (Laughter.)

9 MR. O'BRIEN: I agree with that, too. I'll throw  
10 in my two cents here. It's interesting when you get into  
11 these cases, the difference between the plaintiff's number  
12 and the defendant's number usually comes down to about three  
13 assumptions or three factors. Just a handful. And, you  
14 know, some of those could, I thought, maybe along what Rich  
15 designed, you know the judge might want to decide. We've  
16 talked percentages, but is a lump sum more appropriate in  
17 this matter. That would bring the parties together really  
18 fast.

19

1 list the four key things they differ on, and that's what  
2 we're going to present to the jury.

3 MS. MICHEL: Okay. John.

4

1           MR. CHAIKOVSKY: Well, I'm generally in agreement  
2 with the comments just made by everyone. Having said, I  
3 don't know if ten years is the right period of time, because  
4 I don't think Mary could wait ten years. And there's a lot  
5 of other technology companies here that can't wait ten  
6 years. So if we don't get a resolution to the problem in  
7 some time less than that, whatever that time that is, and  
8 whether it's five years or what-have-you, through the  
9 courts, then we're in trouble.

10           I would say and whether we go into an ongoing  
11 royalty discussion that cases such as the *Amato* case in  
12 terms of ongoing royalties and the additional factors that  
13 they set forward there, and one of them being the  
14 infringer's likelihood of success on appeal, doesn't give me  
15 a lot of hope that the Federal Circuit's going to be getting  
16 it right or certain panels of the Federal Circuit are going  
17 to be getting it right any time soon, because all they did  
18 is muck that up even further.

19           And so I'm in favor of the common law. You know,  
20 I'm a proponent, I'd like to see the solution there, but I  
21 recognize that high-technology companies here in the valley  
22 can't necessarily wait. And if see things like *Amato* come  
23 down and that coming down in the future, I don't have a lot

1 of hope.

2 MS. MICHEL: Mary.

3 MS. DOYLE: So to speak as a member of that  
4 industry, I think we've now waited for six years and if we  
5 must wait another four I think you'll see companies go out  
6 of business because there are nonpracticing entities out  
7 there that are poised upon the failure of this legislation  
8 to take advantage of the vacuum and leverage huge and  
9 perhaps extraordinarily unaffordable for some of us  
10 settlements by virtue of huge patent portfolios that may or  
11 may not be infringed, who knows.

12 So in my view we've waited long enough. I have,  
13 in general, every confidence in the common law, but I look  
14 to the legislature to remedy abuses that are outstanding as  
15 long as these have. You know the venue issues that are  
16 involved here, but perhaps, most importantly, at least from  
17 my perspective, the lack of clarity around damages. The  
18 longer we wait the more money is going to be spent on  
19 transaction costs, which add value to nobody, benefit no one  
20 other than the source of those services, and many of whom  
21 are sitting around this table, so it's sort of, you know, no  
22 offense intended. But, in the end, we're not creating  
23 value.

1                   And so I have looked to the legislature. Our  
2 company has, our industry has. And I think at this point we  
3 will be sadly disappointed because the legislative process  
4 isn't perfect either.

5                   MS. MICHEL: All right. Just one question on lost  
6 profits. Are the standards for establishing lost profit  
7 damages too strict? And if you think they might be, why  
8 might that be a problem?

9                   Mark, this is your cue.

10                  MR. LEMLEY: My cue? All right. Well, I mean so  
11 this is -- I have argued that one of the reasons we got into  
12 the reasonable royalty mess is that we created a bunch of  
13 rules, including the entire market value rule but including  
14 a bunch of others, convoyed sales, various things got  
15 imported into reasonable royalties, because there were cases  
16 that were really lost profits cases but where the patentee  
17 couldn't satisfy the fairly rigorous standards of proof that  
18 have been set out in lost profits cases.

19                  I mean the most extreme examples involve cases in  
20 which I've demonstrated -- a patentee who's a competitor in  
21 the market has demonstrated the demand for the product.  
22 They've demonstrated there isn't a noninfringing substitute,  
23 that they would have made the sale, could actually have

1 manufactured the goods, but there was insufficient evidence  
2 as to distinguishing out particular parts of their cost  
3 structure to determine what the profit was. And so the  
4 court said: Oh, well, so you haven't proven lost profits  
5 because we don't know what the exact profit number is, so  
6 we'll send you into the reasonable royalty category.

7 And then when you get into the reasonable royalty  
8 category, you say: Well, oh, but, you know, boy, the  
9 royalty should be pretty large because if you just give a  
10 small two- or three-percent royalty, it means they're not  
11 making much money and, in fact they would have lost a lot.

12 And so we add kickers to compensate for the  
13 seemingly low reasonable royalty numbers. Or we add entire  
14 market value rule or we add convoyed sales or various other  
15 things. And I think if we could more readily distinguish  
16 between companies whose claim of injury was, 'I lost a sale  
17 in a market in which I participate,' from companies whose  
18 claim of injury is, 'I lost licensing revenue from a  
19 transaction that I would have made,' we could have a more  
20 rational set of damages rules for each of those cases  
21 separately.

22 MS. MICHEL: Thank you.

23 Any thoughts on that? We'll move onto injunction.

1 MR. SCHLICHER: I don't --

2 MR. CHAIKOVSKY: See Seymour Wemley's (phonetic)  
3 paper from 2007.

4 MS. MICHEL: Yar is in agreement then. Okay.  
5 John.

6 MR. SCHLICHER: I don't think you could make the  
7 standards for proving lost profits any more lenient if you  
8 tried. I'm not aware of the case Mark's talking about, but  
9 I think the standard is extraordinarily lenient. Indeed,  
10 the only thing you can't do is prove a number by speculation  
11 and guess work. Anything else seems to be okay. So I'm not  
12 so sure that I think that we are having too many reasonable  
13 royalty cases because people are having trouble proving lost  
14 profits, although I defer to Mark, I mean if he's seeing  
15 them.

16 The only lost profits issue that I think is  
17 important is the extent to which the *Grain Processing*  
18 decision applies to all lost-profits cases, not simply what  
19 actually happened there, namely, an infringer who sold a  
20 product and had an absolutely perfect substitute available  
21 if it hadn't used the invention. The issue is whether if it  
22 had an imperfect substitute, the same analysis would have  
23 applied. I have seen one case that suggests to me maybe the



1 Federal Circuit doesn't know the answer to that question.

2 Frank Easterbrook knew the answer and he wrote it.

3 The answer is: The same approach applies to imperfect  
4 substitutions. But I have yet to see a case that actually  
5 says it. And if that's not -- if that's not the way cases  
6 are being decided, then we have exactly the same problem in  
7 lost profits that we've been talking about in reasonable  
8 royalties. And I don't know whether the reality is that we  
9 do, but I fear there is a risk that we might.

10 MS. MICHEL: Bill.

11 MR. ROOKLIDGE: I would just say that like John I  
12 have a difficult time wrapping my mind around the concept of  
13 loosening up damages in one area to solve damage problems in  
14 another. And I'm just not there.

15 MS. MICHEL: Okay. All right. Permanent  
16 injunctions. We did have a day in D.C. when we talked about  
17 the four factors in great detail. One topic we'd like in  
18 the short amount of time we have left today is to talk about  
19 what ought to happen if a court denies the permanent  
20 injunction. What then? How do we determine the ongoing  
21 royalty, what kind of factors should we think about? Any  
22 thoughts?

23 Yar.

1           MR. CHAIKOVSKY: Well, as I already mentioned, I  
2 think we've already been provided some factors by the  
3 Federal Circuit in terms of what should be thought about in  
4 terms of ongoing royalty. I don't know if I'm necessarily  
5 in agreement. In particular, there was one I pointed out  
6 where it was kind of nonsensical in my book.

7           You know that being said, I think you saw  
8 something in *Paice versus* -- you know, when you have *Paice*  
9 and you have *Amato* from the Federal Circuit where there was  
10 a suggestion at least from Rader, you know, coming on early  
11 that the parties should enter into negotiations first and  
12 actually have negotiations as opposed to necessarily having  
13 a court decide that ongoing royalty. And you've seen most  
14 of these decisions post the *Paice* and the *Amato* decisions  
15 with these nonpracticing entities coming down from the  
16 Eastern District of Texas, although you've got a case from  
17 Massachusetts, et cetera, but you've got, for example, the  
18 *Telcordia* case in Delaware where actually the judge did say,  
19 'Hey, parties, why don't you go negotiation and actually see  
20 what you guys are able to come up with post this finding of  
21 infringement.'

22           And maybe that is an answer, to see if the parties  
23 can negotiate a result before we actually have a court

1 determine what the ongoing royalty should be.

2 MS. MICHEL: But parties can always go off and  
3 settle. You don't have to have a court telling them to do  
4 that.

5 MR. CHAIKOVSKY: Parties can. But, one, will  
6 they? Two, if we then let them -- if we let them go and  
7 have an ongoing royalty and, in particular, in light of --  
8 we'll see what happens with *Paice* after it came back down  
9 with \$98, you know, \$25 going up, not enough evidence to  
10 support \$25, 'Well, I'm going to come back down and give you  
11 \$98.' You know, so when we have that, well, where's the  
12 settlement likely to end up?

13 So, yes, the parties can go off and have their  
14 settlement negotiation, but if you allow the court to  
15 establish an ongoing royalty and that ongoing royalty is  
16 based on: If we follow the case law as it exists, now we  
17 already did, the expert's assuming that we've got  
18 infringement and validity, but now, okay, we've got this  
19 heightened -- well, now we got a jury verdict that actually  
20 says that there's infringement and validity, and somehow in  
21 *Amato* we're saying that's different, there's a jury verdict,  
22 and even though we already made this assumption.

23 And, in fact, we've got Judge Clark in Texas



1       there's some uncertainty, maybe we got the damages numbers  
2       wrong, should we systematically change them now that we know  
3       there's been -- you know, now that we're in a going-forward  
4       royalty rather than a retrospective damages for the finding  
5       of infringement and, if so, how should we change them?

6               Most of the discussion here has been I think  
7       pointing in the direction that the problem with reasonable  
8       royalty damages is that they are too high in many-component-  
9       industry cases for a variety of reasons. It is therefore  
10      particularly odd to say, anyhow, well, if we think we don't  
11      have a particularly good handle on the retrospective  
12      damages, and maybe they're all too high, we'll use that as a  
13      floor for the number going forward.

14              What the court in *Amato* says is the royalty on an  
15      ongoing basis should be somewhere between the minimum of  
16      whatever the jury awarded as past damages and the maximum of  
17      whatever the patentee asked for. And if the parties don't  
18      come to a deal, 'Well, Judge, choose a number somewhere  
19      between those two.'

20              And in that particular case, *Amato*, the numbers  
21      they used were what the jury actually awarded was four cents  
22      a unit, what the patentee asked for was \$2 a unit, so  
23      there's a 50-times difference between those two numbers.

24              At that point, if we start effectively making this

1       punitive, if we start saying, all right, we're going to have  
2       a higher number just because this is a going-forward  
3       royalty, we are granting an injunction, right. And that's  
4       just bizarre, having just gone through the four-factor test  
5       and saying we don't want to stop the defendant from doing  
6       this. We think it's actually efficient for the defendant to  
7       continue to infringe on the payment of a royalty, but we'll  
8       set the damages award so high that the defendant can't  
9       afford to do it.

10               MS. MICHEL: The Texas Court mentioned the  
11       infringement going forward would be willful. Should that  
12       play into the discussion?

13               MR. LEMLEY: I think this is actually really a  
14       hard question. So the Federal Circuit hasn't resolved it.  
15       They suggest in *Amato* that it's not willful, but what they  
16       really suggest is willfulness is just not the right  
17       question.

18               So it is the case that, going forward, the  
19       defendant knows that they are infringing a valid patent,  
20       right. On the other hand, it's also the case that the  
21       district court has weighed the four-factor test of  
22       injunctions and decided we shouldn't stop this active  
23       infringement. So it is once again I think very odd to say  
24       but we'll punish it, right.

1                   And there are plausible arguments on both sides.  
2           I think it is a bit odd to punish having not granted  
3           injunctive relief, but I can see the argument on the other  
4           side.

5                   MS. MICHEL: Rich.

6                   DR. GILBERT: The answer is delta. Otherwise, --

7                   MS. MICHEL: Good economics.

8                   DR. GILBERT: The answer to all. Otherwise you  
9           are trapped in an endless loop in which royalties equals  
10          damages which equal royalties, and that can be any number  
11          you choose. So you really have to nail it down by trying to  
12          figure out what the underlying contribution is of this  
13          technology.

14                   A few complications. Well, first of all, if  
15          there are many essential technologies, you are necessarily  
16          involved in apportionment of some kind. It could come about  
17          through self-regulation of all the licensors getting around  
18          and saying: Let's license this and divide the value among  
19          us. But if you don't have that, it could very well require  
20          a court to determine how much this patent is worth when  
21          there are 99 others that are also necessary for the pump.

22                   There are other complications as well, such as how  
23          much of delta should go to the licensor and how much should  
24          the licensee capture as consumer surplus, if you will.

1       There are probabilistic issues, there are timing issues.  
2       But I think the bottom line is you need to start with delta.

3               MR. CHAIKOVSKY:  If you answer it with you need to  
4       start with delta, then the question I would have is why do  
5       we have *Paice* and *Amato* and why is there the difference  
6       between -- again, you know, the heightened focus on the jury  
7       verdict's finding of infringement and -- you know.

8               DR. GILBERT:  The court got it wrong.

9               MR. CHAIKOVSKY:  Yeah.  I mean and that's where we  
10       are.  And so that will harken me back to Mary's point of how  
11       long is she going to wait for the common law, because this  
12       is where the common law is going in the post-*eBay* world, at  
13       least with respect to damages ongoing royalty.  This is  
14       going to be a big issue as it goes forward.  This doesn't  
15       bode well for the damages issue in general and reasonable  
16       royalties in general coming out of the Federal Circuit.

17              MR. ADKINSON:  Vince.

18              MR. O'BRIEN:  It's always interesting when you  
19       look at the schizophrenia in these cases.  But by not

20



1 and the court decide what the value is. Or you can say: Go  
2 negotiate. Three months from now, if you haven't had an  
3 agreement, you each come in with a hearing. Each of you  
4 present a number, and I'll pick one or the other.

5 You can come up with all sorts of structures like  
6 that to solve this problem, instead of coming up with these  
7 crazy decisions. To an economist it's frustrating to look  
8 at them flounder around on this issue.

9 MR. LEMLEY: But we already did solve this  
10 problem, right. There's -- you know, outside of the  
11 pharmaceutical ANDA cases, there is no case in which you  
12 find validity and infringement where you haven't already  
13 gone through a damages analysis, right. We've had economic  
14 expert testimony to --

15 MR. O'BRIEN: Well, I mean you could do that. I  
16 mean I just say it so that you have -- you put some pressure  
17 on them to reach some kind of an agreement, hopefully that  
18 they might be a little bit better than the trial outcome.

19 MR. ADKINSON: But they need to know what they're  
20 negotiating in the shadow of.

21 MR. O'BRIEN: Yes. And you have to define that  
22 before you send them off on their own.

23 MR. CHAIKOVSKY: And you've got a situation right  
24 now where you've got, for example, certain venues that are





1           because if you don't do that, of course you've totally  
2           defeated the whole purpose of the judge in denying the  
3           injunction.

4                       MR. ADKINSON:   Just to quickly go right up, if we  
5           could, and ask people if could react, since we didn't have a  
6           time to talk about injunctions generally, just quickly what  
7           your thoughts are on the impact of *eBay* and on the impact of  
8           the ITC on the effectiveness of *eBay*.

9                       MR. CHAIKOVSKY:   So the impact of *eBay*, well, I  
10          mean I think you had something -- I don't know, pre-*eBay*,  
11          maybe someone else here has the statistics in terms of 90,  
12          whatever, percent.   But we've done an analysis of the  
13          decisions post *eBay* and I think you're getting competitor  
14          versus competitor.   You're ending up with 80 percent, so  
15          you're still, you know, more likely than not, four out of  
16          five times, to be getting an injunction in a competitor-  
17          versus-competitor situation.

18                      In a noncompetitor situation you've only had one  
19          out of eight that I'm aware of be granted, that one being  
20          CSIRO getting the injunction.   That doesn't mean that  
21          CSIRO's going to get -- I mean it's only gone up on validity  
22          issues.   It's come back down on validity issues.   We'll see  
23          if CSIRO does continue to get it.   Obviously there's a  
24          concurring opinion that research institutes, et cetera,

1           universities should be entitled to perhaps getting  
2           injunctions, and that's what the Eastern District of Texas  
3           relied upon there, so we'll see *CSIRO*.

4                         And, quite frankly, we're seeing the proliferation  
5           of universities now suing the likes of high-tech companies

6

1 step in the right direction. It's helped significantly. As  
2 Yar suggested, it's actually mostly parsed out into  
3 competitor cases versus NPE cases, despite the reference to  
4 no generalized rules. I think there are some things that  
5 are -- there are some decisions that are problematic.  
6 *CSIRO*, I think -- the district court decision in *CSIRO* is a  
7 crazy outlier. It's already been reversed on other grounds.  
8 Maybe it will be reinstated as a crazy outlier, but  
9 hopefully not.

10 On the other side, the Federal Circuit decision in  
11 *Voda versus Cordis* I think unfairly lumps in exclusively  
12 licensors with the nonpracticing entities who cannot get  
13 injunction relief, and I think that's a mistake. It's just  
14 a kind of bad application of equity law.

15 MS. MICHEL: One question about the *CSIRO* case.  
16 My understanding is that the research institute had made a  
17 RAND commitment to a standard-setting body.

18 MS. DOYLE: Yes.

19 MR. LEMLEY: Yes.

20 MS. MICHEL: And any thoughts on whether an  
21 injunction should ever be available in that context?

22 MR. LEMLEY: Yeah. So I mean I am of the view  
23 that if you enter into a RAND commitment that is properly  
24 structured in the standard-setting organization, that you've

1 entered into an enforceable contract, right. If you  
2 remember your first-year contract law, one of the things you  
3 do not have to have an enforceable contract is a price term.  
4 And so I think if you've entered into a RAND deal you have  
5 licensed your patent and it remains to be discussed --  
6





1

CERTIFICATION OF REPORTER

2