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PUBLIC HEARINGS:

COMPETITION AND INTELLECTUAL PROPERTY LAW AND POLICY IN THE KNOWLEDGE-BASED ECONOMY

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I N D E X

P R O C E E D I N G S

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MS. GREENE: We'll unfortunately have to proceed without one of our panelists. I'm sure Bhaskar will be here shortly.

First of all, thank you for joining us. It's a real honor for us to have you all here. Today is in some ways a combination of many of the panels that we've had throughout the course of the hearings over the past four months. We are going to be looking at basically what was one of the critical actors throughout the whole hearings, that is to say the Federal Circuit. We're going to be looking at, among other things, the impact that it has on antitrust law.

And one of the things that characterizes the panel is obviously not only the incredible caliber of the guests that we have here today, but also your number. Much to my chagrin, because of the number of panelists, I've actually taken the liberty of putting together a little time line so we can keep things flowing. We have so much to cover. Not only do we have a lot of topics that we up here have thought about in terms of things we want to cover, but also the countless things which you all have brought to our attention as still additional topics that we need to consider.

So, if you would stick to the time frame as much as possible, I would greatly appreciate it. Additionally, we have a very kind attorney, Mike Barnett, who is sitting in the front row, who is an attorney in the Office of the General Counsel. He has agreed to hold up a sign that will tell you that you have three minutes left, and then no minutes left. And we'll try that, because as I said, I've had the honor of speaking to each of you and I know that you have lots of points to make and I really don't want to end in a position where some folks don't have the opportunity to speak.

So, with no further ado, let me just go ahead and briefly do the introductions, because I think most of the cast of characters is well known here, and we can take it from there. My name is Hillary Greene, I am the Project Director for IP in the Office of the General Counsel here at the FTC.

To my right is Suzanne Michel, who is the Counsel for Intellectual Property at the FTC, and she is in the Bureau of Competition, but I like jokingly telling people that she is an honorary member of the General Counsel's Office, because she has just been an absolutely amazing resource throughout the entire length of the hearings, and in the many, many months preceding

them. So, I think we need to give you the credit you are due.

We have to her right, Frances Marshall, an attorney from the Department of Justice, who is heading up the effort for that agency. To my left we have Ray Chen who is an Associate Solicitor at the PTO and who is reprising his role and we're glad to have you back.

Very briefly let me go around and introduce today's panelists. First, Charles Baker is a partner at Fitzpatrick, Cella, Harper & Scinto in New York, where he has been lead trial counsel and extensively involved in all aspects of patent litigation. He is currently Chair of the IP Section of the ABA, and he has been a member of the boards of directors of the American Intellectual Property Law Association and the New York Intellectual Property Law Association. And he is, despite all of those affiliations, here in his individual capacity.

We next have Bhaskar, who is actually a former staff member here at the Federal Trade Commission. He is coming in from Massachusetts, so I'll hold off introducing him formally until he gets here.

Next we have Roxanne Busey, who is a partner in the Chicago office of Gardner, Carton & Douglas, where her practice includes antitrust litigation and

counseling. She is the current Chair of the ABA Section of Antitrust Law, she served on the Special Task Force on Competition Policy to the Clinton Transition Team and she has testified before the FTC on joint ventures and efficiencies and global competition.

Next we have Rochelle Dreyfuss, who is the Pauline Newman Professor of Law at NYU where her research and teaching interests include intellectual property, privacy and the relationship between science and law. She is currently a member of the National Academy of Sciences Committee on Intellectual Rights in the Knowledge-Based Economy and she has worked as a consultant to the Federal Trade Commission and the Department of Justice throughout the course of these hearings. We appreciate you being here today and yesterday as well. I think of her as basically being our expert on the Federal Circuit, when in doubt, ask Rochelle.

Next we have George Gordon, a partner in the litigation department and a member of the antitrust practice group at Dechert in Philadelphia, Pennsylvania. His antitrust practice concentrates on intellectual property, antitrust litigation and counseling. He is active in the ABA's Antitrust Section and is the in-coming cochair of the Section's Intellectual Property

Committee.

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

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

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

November of 1994. In his capacity, he participates in the establishment of patent policy for the various patent organizations, under the Commissioner of Patents, including changes in patent practice, revision of the rules of practice and procedures, and the establishment of examining priorities and classification of technological arts.

Next we have Cecil Quillen, who is a currently a senior advisor with the Cornerstone Research Group, an economic consulting firm. He is former general counsel at Eastman Kodak where he was senior vice president and a member of the board of directors from '86 to '92. He has spoken and written on innovation in the U.S. patent system extensively.

Next we have Bob Taylor. Bob Taylor is the managing partner of the Silicon Valley office of Howrey, Simon, Arnold & White, where he specializes in patent and antitrust litigation and the related fields of law. He is a former chair of the Antitrust Section of the ABA, and he was also a member of the Advisory Commission on Patent Law Reform whose report was presented to the U.S. Secretary of Commerce in 1992, proposing changes in the patent laws.

Lastly, we have Matt Weil, who is a partner in the Irvine office of McDermott, Will & Emory where he

specializes in intellectual property litigation and counseling. He has been a director of the Orange County Patent Law Association since '98 and he is a frequent author and speaker on intellectual property issues.

Unfortunately, Ms. Azcuenaga was unable to join us today. But we hope to be able to get her input -- as the input of all of the public -- through other ways, such as submitting comments. Additionally, Mark Banner was unable to join us, which is unfortunate. But we are absolutely delighted to have Bob Taylor who has agreed to come in his stead and speak on behalf of the ABA's IP section.

Okay, and with no further ado, I would like to actually just turn to Roxanne, to start us off.

MS. BUSEY: Thank you, Hillary. I am pleased to be here in my capacity as Chair of the ABA Antitrust Section. I have to say that these views are being presented on behalf of the Antitrust Section only, and have not been approved by the House of Delegates or the Board of Governors of the American Bar Association, and therefore should not be construed as representing the position of the ABA.

I believe that you have received in advance our written testimony. Today I would just like to highlight some of the points that we made in our written

testimony.

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

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

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

and then end by briefly bringing to your attention the publication that the antitrust section did with respect to the Federal Circuit, which I assume will be the primary focus of the discussions today.

In terms of the relationship between the antitrust and intellectual property law, I think that most agree that both of these laws have provided an important framework for the preservation and expansion of a competitive free-market economy. The intellectual property laws encourage innovation, and clearly the antitrust laws do as well. They have as a secondary purpose the efficient utilization of resources and the promotion of consumer welfare.

Nevertheless, the courts have long struggled to reconcile antitrust enforcement with the statutory right to exclude under patent and copyright law. In going back to the 1970s, I think we can all remember when there were "Nine No-Nos" that were espoused by the agencies and violation of those resulted in something that was illegal per se.

Fortunately, those "Nine No-Nos" were revoked, at least in part. Unfortunately, there are some who now believe that there are no no-nos, so to speak, and that all of these practices are, per se, lawful.

I think today most recognize that absent

evidence of a naked restraint, most practices should generally be analyzed under the rule of reason. Therefore, the moderating view is that there is a reconciliation and a balancing between the rights of intellectual property owners and the antitrust laws.

I would also note that both laws have Constitutional authorization, both come from Article 1, Section 8. The reference in the Constitution to patents is a little bit more specific, it authorizes Congress to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries. The clause pertaining to antitrust is from the Constitution's authorization to Congress to regulate commerce among the several states.

The Supreme Court has characterized the antitrust laws as the Magna Carta of free enterprise, stating, "They are as important to the preservation of economic freedom and our free enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms."

Issues at the interface of antitrust and intellectual property are best resolved when each field has due respect for the other. The antitrust lawyers must recognize and appreciate the legitimacy of

intellectual property, the presumption of validity afforded to intellectual property rights and the right of intellectual property owners unilaterally to exclude others from utilizing such property.

At the same time, intellectual property law must remember that representations to the Patent Office, certain restrictions and licensing agreements, cross-licensing and patent pools, patent acquisitions, patent settlements, and the use and intellectual property in standard-setting may have antitrust implications.

Former FTC Chairman Pitofsky has suggested that there is a trade-off between intellectual property and antitrust and has expressed concern that the balance has tipped to give intellectual property inappropriate weight. So, the question is how to determine whether this is true, what to look at. I think it would be appropriate to look at the 1995 Guidelines, it would be appropriate to look at enforcement actions, although the section has not done that, and it would also be appropriate to look at the role of the Federal Circuit.

With respect to the 1995 IP Guidelines, there are three fundamental principles that are articulated there that the section endorses. First of all, one should apply the same general antitrust principles to

conduct involving intellectual property as to conduct involving any other form of tangible or intangible property, while at the same time recognizing that intellectual property has unique characteristics.

Secondly, the IP Guidelines explain that one should not presume that intellectual property necessarily confers market power, despite the fact that courts historically presumed that intellectual property rights give an intellectual property owner a legal monopoly and market power. The ABA has taken such a position and Charlie Baker, I think, has given testimony to support this as well.

And thirdly, the IP Guidelines recognize that generally licensing is procompetitive, but also recognize that competitive concerns may arise where licensing arrangements harm competition among entities that would have been actual or likely potential competitors in the absence of the license.

And we would also like to note that at the time the IP Guidelines came out, the Intellectual Property and Antitrust Sections submitted comments on these guidelines. Some of the changes that we proposed were incorporated into the guidelines, others were not; and this testimony is not really intended to change anything that was said with respect to those guidelines at that

time.

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

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

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

technology or innovation market. In the Antitrust Guidelines for Collaborations Among Competitors, there is a requirement of three or more, and we would request some clarification there.

Secondly, we note that under the IP Guidelines, the safety zone analysis may be applied not only at the time of the license grant, but also at a later date. We note the policy tension between ex-ante and ex-post enhancements to enforcement and we suggest that that might be an area for further consideration.

And finally, the section has previously suggested and we continue to believe that an antitrust safety zone for restraints and licensing arrangements more permissive than the current 20 percent market share safety zone is appropriate for licensing between parties in purely vertical relationships. Both judicial precedent and the federal agency's own policy statements and other contexts support adoption of a 35 percent threshold for potential market power concerns.

Finally, let me just say a word about the Federal Circuit report that we had prepared and submitted to you separately. The section had asked the Intellectual Property Committee of our section, which is currently chaired by Howard Morse, to look into the role and scope of the Federal Circuit. This was before the

hearings was announced, and sparked, in part, by the amicus brief of the United States opposing certiorari in the Xerox case, where it was suggested that the Supreme Court allow the difficult issues in that case to percolate further in the Court of Appeals.

The report that we have prepared really is divided into three sections, and I would commend it to you. It was distributed separately to the hearings, but it's also available on our website. The first section provides quite a detailed review of the overview of the history of the creation of the Federal Circuit, and I think pretty well captures the tension that there was when the Federal Circuit was created.

It can be argued, from the legislative history, that Congress contemplated that the Federal Circuit would have some role, perhaps some significant role, in shaping antitrust law, in particular where antitrust claims are based on patent prosecution practices or certain types of licensing practices. But Congress also expected the court to zealously guard against the expansion of that role beyond areas implicating the development of patent law.

The second section of the report talks about the current state of the law on Federal Circuit jurisdiction. It begins by analyzing the Supreme

Court's decision in Christianson, and it does include reference to the Supreme Court's decision in Holmes versus Vornado, which I am sure people will be talking about at some length. It does not really get into what are the implications in Holmes versus Vornado. I think we all need to consider that, and I'm sure there will be a great deal of speculation about that.

The third and final section explores the development of the Federal Circuit's choice of law rules in antitrust cases, both before and after Nobelpharma, and, interestingly enough, it concludes that the choice of law rules has over the years tended to be more the choice of the Federal Circuit than of regional circuits, but then it goes on to ask the -- I think the important question, so what difference has that made? Has the decisions of the Federal Circuit on antitrust/ intellectual property issues been within the mainstream of antitrust law? The conclusion that the paper comes to is that looking at the cases, that there are really no significant indications in deviation from the mainstream of antitrust analysis.

It cites three cases in particular for careful review. It suggests that some of the dicta in those cases may be overbroad, and not in the mainstream, but that the holdings are pretty much within the mainstream.

It concludes by saying that the Federal Circuit does have a significant impact on the development of antitrust law.

Finally, I would like to say that there are other publications that the antitrust section has done on the issue of the intersection of intellectual and property law. There have been comments submitted on the IP Guidelines, these are submitted jointly with the IP section, I think I made reference to that. There is also a publication that we have that talks about the IP Guidelines.

In addition to the comments on market power legislation, which I referred to, there are two other things that were prepared this year that might be of interest to the agencies as they pursue this endeavor. One is the publication on the Economics of Innovation, a survey. The other is the comments that the IP and Antitrust Sections and International Section, also submitted to the EC's Evaluation Report of the Transfer of Technology Block Exemption, that might also be of interest to you.

On behalf of the Antitrust Section, I would like to thank you again for the opportunity to participate in these hearings.

MS. GREENE: Thank you so much.

Bob? Oh, and please speak into the microphone to make our court reporter happy.

MR. TAYLOR: All right. I am Bob Taylor and I am appearing here as a spokesman for the Intellectual Property Law Section of the ABA, in place of Mark Banner, who was originally scheduled for this slot. It's a privilege to be here, although I'm sorry that Mark is ill.

I also have to make on behalf of the IP Law Section the same disclaimer that Roxanne made on behalf of the Antitrust Section. We are speaking only as a section, and not as the ABA, and since I practice actively in this area, I also need to state that what I am about to say is my own views and those of the IP Law Section, not necessarily those of my firm or its clients.

The IP Law Section has chosen to address certain issues related to the Federal Circuit and we have put in a statement of our position with respect to that. I thought I would take my time this morning and address two of the three themes that are in our statement. The statement covers, actually, three themes: Jurisdiction of the Federal Circuit, choice of law decisions by the Federal Circuit in resolving non-patent issues, and then, finally, the deference that the Federal Circuit

has been and is paying to principles of competition law in connection with the way in which it defines the patent law right.

I am going to talk to the last two of those issues, I know a number of other people are going to be talking to the jurisdiction issues, the Vornado case particularly and some of its implications.

I think it is safe to say that many practitioners in the patent community have been troubled by some of the writings that have been critical of the Federal Circuit. Those who practice before that court have been impressed largely with the quality of the decision-making, the quality of the analysis, and the thoughtfulness of the judges in approaching their work.

Defining patent law has been an enormously complex and difficult task, and it is important to remember the fact that the Federal Circuit was not created in a vacuum. If you turn the clock back to 1980, there were significant problems faced by a patent owner in trying to commercialize its patent property. We had 10 or 11, I don't remember when the 11th Circuit came into being, but we had all of the regional circuits that were hearing cases from district courts. It was not uncommon for two or more of the regional circuits to differ with respect to the same patent.

There are some examples. I think Professor Dreyfuss, in one of her articles, flags a couple of cases in which different courts dealing with the same patent reached different conclusions. It was certainly the case that every one of the circuits had its own particular fingerprint as to how it would handle patent cases. The American Patent Law Association, a predecessor of the AIPLA actually kept statistics on the circuits, and for a patent owner about to litigate a patent, you could go to those statistics and see what your batting average was likely to be on cases regarding valid and infringed.

The Fifth, Sixth and Seventh Circuits were attractive places for a patent owner to be, the First, Second and Third circuits were very unattractive places, and the other circuits fell sort of in between. That was the environment in which the Federal Circuit was created. It was a general perception of Congress that if the patent system was going to achieve its full potential, as an incentive to innovation, that something needed to be directed, and the Federal Circuit was the response to that need.

The Federal Circuit is -- has -- if you have followed the evolution of the Federal Circuit, particularly with respect to its deference to the

regional circuits, you find that it has been remarkably willing to define its own role as one confined to Title 35. Very early in its history the Federal Circuit noted that it would use the law of the regional circuit where it made sense to do so, and that it would confine the creation of a separate body of law to those issues that were essential to a uniform application of Title 35.

Specifically, early in its existence, the Federal Circuit singled out antitrust as one of those issues where it planned to use the law of the regional circuits. More recently, as Roxanne pointed out, and as a number of commentators have pointed out, the Federal Circuit has decided to create its own uniform body of jurisprudence with respect to at least many of the issues that are defining the interface between intellectual property law and antitrust law. One of the points that's made in the IP Section statement is that the justification for that really can be found in the passage of some 20 years.

Twenty years ago, when the Federal Circuit was created, the recent jurisprudence on patents and antitrust lay in the regional circuits. Virtually every regional circuit had a rich body of law, many intellectual property practitioners probably disagreed with a lot of it, and indeed most economists, I think,

disagreed with a lot of it. Much of it was derived from the concepts of the nine no-nos that had been articulated by the Department of Justice quite vigorously from the late '60s on, but every circuit did have this body of law, and the Federal Circuit had little or no experience of its own.

Without belaboring the point, I want to just remind you all, though, that antitrust in the period since 1982 has gone through a truly remarkable transformation. I sat down last night and tried to tick-off just some of the cases and I made a short list: Copperweld, Spectrum Sports, Monsanto, Sharp, Kahn, Cargill, Associated General Contractors. All have been decided since the Federal Circuit was created and those cases, by any measure, have made antitrust law today unrecognizable to someone who let their subscription to U.S. Reports expire in 1982.

In 1982, the Circuit Court, the regional circuits were just coming to grips with Illinois Brick, Sylvania and Brunswick, which also modified enormously the rights of private plaintiffs to pursue antitrust theories in Federal Court. And then finally, remember that Dawson versus Rohm & Haas, SCM versus Xerox, United States versus Studiengesellschaft also in that time frame were redefining in a major way the relationship

between patent law and antitrust law.

That was the environment in 1982. At that point in time, it may have made sense for the Federal Circuit to look to regional circuit law. Today, 20 years later, virtually all of the jurisprudence defining the interface between patents and antitrust, because those issues come up primarily in patent cases, virtually all of that jurisprudence has had to come from the Federal Circuit in an effort to apply regional circuit law.

It is against that backdrop and that fact, that I think one finds legitimate reason why the Circuit has decided to create its own body of law. The body of law residing in the regional circuits is hopelessly out of date. You may still, for example, find old cases in the regional circuits that have never been overruled, in which antitrust violations involving patents are predicated on something such as vertical restraints of trade, which you may recall were, per se, illegal between 1967 when the Supreme Court decided Schwinn, and 1978, when it decided Sylvania. Those old cases have never -- there just hasn't been enough volume of litigation on these points to have caused them to be overruled.

I commend to the two agencies, if you haven't already done it, a reading of Judge Posner's decision a

couple of weeks ago in Scheiber versus Dolby Laboratories, in which he is dealing with a license agreement that Dolby Labs has moved to set aside because it called for royalty payments that, although originally contracted for at the suggestion of Dolby Labs, were to extend over a period beyond the expiration of some of the patents.

Judge Posner bemoans the fact that Brulotte versus Thys, a 1964 Supreme Court decision in this area, is still the only Supreme Court law on the books. He finds the Seventh Circuit constrained to apply the Brulotte case, even though modern economics and modern views of patent law would suggest that it is no longer a law that even the Supreme Court would follow. But since it's the most recent pronouncement of the Supreme Court, it is the one that he is constrained to apply.

Let me close out that portion of our paper and turn now to the subject of competition law as a backdrop. Many of the speakers that have written recently on the interface between patents and antitrust. Indeed, many of the speakers that have appeared during these hearings have noted the desirability for balance between patents and antitrust.

It's very difficult to speak in the abstract against the reasonable concept of being balanced, but

I've never been quite certain what that means when you talk about patents and antitrust. It seems to me that a great deal of the reconciliation of patents and antitrust has to start from the nature of the patent system we've decided to have.

The decision to have a patent system is the starting point, and we've defined the patent right in terms of exclusivity. It is exclusive for a limited period of time, and that exclusivity operates as an incentive for innovation.

Now, you can debate as a matter of economics the wisdom of having a patent system. Most of the debates that have taken place, however, have come down in favor of having one. But once you have a patent system, and once you create the exclusive right, it seems to me that a lot of the mechanisms of antitrust have to be set aside in favor of that exclusivity.

If, for example, you examine the intent of a patent owner, as many antitrust analyses would do, you're very likely to find that the patent owner does intend to have a monopoly. That's what the patent system allows the patent owner to have, and indeed, patent damages predicated on price erosion are situations where the patent owner is actually saying to the court, properly and lawfully, I am entitled to

monopoly profits because the law has given me a lawful exclusive right.

So, I urge you to bear in mind that it is the nature of the right to a very large extent that should define the patent antitrust interface. There is a powerful backdrop, however, of competition law that is used by the courts to define the patent right. It goes clear back to the Constitutional provisions that create the patent and the copyright system as well. That they're created for a limited purpose, to promote the progress of science and the useful arts. And against that backdrop, those Constitutional provisions make their way into a number of judicial decisions over the years.

I commend the decision in Graham versus John Deere where the Supreme Court, in analyzing what constitutes an invention, what constitutes obviousness under Section 103 of the Patent Code, starts with the premise that the patent system was created against a backdrop of competition. You find this backdrop of competition threading its way throughout both copyright law and antitrust law. I'm sorry, both copyright law and patent law.

The doctrines, for example, in copyright law: The idea expression dichotomy, the practice of the

courts to create fair use under copyrights, the manner in which the Federal Circuit has sought clear and bright lines around the patent right, all of these are carried out in the name of protecting the process of competition.

Thank you.

MS. GREENE: Thank you very much. A lot of information already on the table and we've barely started. I want to give you all just two or three minutes to respond to anything that we've heard in the presentations thus far. We'll keep to the side the jurisdictional and the choice of law issues that we're going to be getting to later, and let me just open it up for comments. If you have comments, turn up your table tent, and then we'll just be throwing out random questions.

One thing that I just want to flag is your articulation of that patent law might result in -- this is to Bob -- the mechanisms of antitrust law needing to be set aside. I think that's a very interesting articulation, and I don't know whether I'm getting caught up in linguistics. Yesterday one of the things that we discussed repeatedly was sort of linguistic traps. At what point are they just sort of everybody likes to play with words, and at what point are they

really the results of some interesting ideas?

So one thing I just hope we consider throughout is the extent to which you are actually setting aside antitrust law or antitrust principles or the extent to which antitrust law evaluates a given situation and does not see an antitrust problem with it. I think that the result may ultimately be inaction or lack of enforcement, but I think that the motivation or the analysis might be different.

So with that just as my own personal interest, let me throw it open to questions and comments.

MS. MICHEL: Let me ask a question along those lines. When we're talking about the interface of intellectual property and antitrust, my sense is that the antitrust lawyers will sometimes come at it as this is an antitrust question, and the patent lawyers come at it with a sense of this is about the definition of the right to exclude and it is, therefore, a patent question.

Does anyone else have that experience or sense? Exactly how should we -- or any suggestions -- ought to approach the question? Because I think that fundamental dichotomy underlies even some questions about choice of law, what law the Federal Circuit ought to apply, and even to what extent the Federal Circuit should be

involved in these issues.

MR. TAYLOR: Do you want me to try to answer that?

MS. MICHEL: Yeah.

MR. TAYLOR: I've spent about 30 years thinking about that question. I've come to the conclusion that the best way to think about it is to take one of those optical puzzles where if you look at it for a while, it's a dog lying down, and if you look at it for a while longer, it's a man standing up. And you can switch it back and forth. And I don't say that as facetiously as it might have sounded.

There is a tremendous dimension of the place you start that leads you to an outcome in this whole area of interface questions. It happens at the market power definition question, it happens at the legitimate scope of the patent or copyright in terms of whether it can affect commerce beyond just the patent claims.

In the early days of defining this body of law, and I use probably the best example that one can find is the Mercoid case. The Supreme Court looked precisely at the claims of the patent and concluded that they were drawn to a furnace system, and the defendant was not selling a furnace system, the defendant was selling only a thermostat which had no use other than a furnace

system, but it was selling not something precisely claimed. The Supreme Court decided that, in that circumstance, the patent owner had used his patent to affect commerce outside the precise scope of the right, and, therefore, that was unlawful.

Somewhere between Mercoid and Data General versus Grumman, which is a First Circuit case involving a copyright on diagnostic software that was used to promote the service business of maintaining computers, and where there wasn't even a serious question raised as to whether it was unlawful to use the copyright outside the precise scope of what was protected. Somewhere between those two decisions we started looking at it differently, but I will tell you, I can't define the point in time when that occurred.

MS. BUSEY: Suzanne, I would just like to comment on that. I think actually Bob is correct and you are correct, it does depend on where your perspective is. First of all, I would like to say that it's important to have hearings like this when both perspectives are presented so there can be more appreciation for the other's point of view.

Secondly, I would like to say I don't know that intellectual property law is different from other regulations that antitrust lawyers have to deal with.

Antitrust laws work around lots of different principles, and one of them is the rights that are given to intellectual property owners, but there are lots of other statutory schemes that have to be taken into account when you're dealing with antitrust issues. The same thing can be said, perhaps, when you're looking at an issue that involves the FERC. Do we come from different points of view? Of course we do, but that's the challenge -- to reconcile these two bodies of law appropriately.

I guess I would note that we did make one reference from the ruling of the Federal Circuit in our report, where ultimately you have to come out, regardless of where your perspectives are, and that is simply, and I would quote, "Intellectual property rights do not confer a privilege to violate the antitrust laws."

So, there has to be some reconciliation. If you start with a perspective that favors one over the other, you need to bring it into the appropriate balance at the appropriate time, and that's what the courts have struggled with, and I think appropriately should struggle with.

I would also draw an analogy to the creation of the Federal Circuit. There was clearly, and Bob made

reference to this, there was clearly a problem, and the solution that was proposed and was adopted was a Federal Circuit. But now you have a specialty court, in a system that really doesn't have specialty courts. That's fine, but you've got to figure out how do you deal with that court, then. It raises all kinds of problems, even though it solves some problems, and maybe that's justification for it. I'm certainly not proposing that anything be done to change that, but now you do have other things you have to take into account, because it is different, and it does create some other issues that have to be addressed.

So, I would just encourage, I mean to the extent we can have people like Bob Taylor and others who are here that practice in both areas, that's got to be the best.

MS. GREENE: Great. We're going to turn to our next presentation, but before we do that, it's my pleasure to introduce an old friend of mine and former colleague, R. Bhaskar. R. Bhaskar has just joined us a few minutes late. He is a Senior Research Fellow at Harvard Business School, he has been there since September of 2001. Prior to arriving at Harvard, Bhaskar was on the legal staff here at the Federal Trade Commission where he was concerned with the intersection

between information technology and compliance with antitrust law. He has a Bachelor's of Engineering degree in mechanical engineering from the National Institute of Engineering at Mysore, then a Ph.D. in system sciences from Carnegie Mellon, and then a JD from Yale. We are delighted to have you here. While you are at Harvard, for which you abandoned the FTC I might add, your research interest is aimed at applying and developing methods of computer science and law to problems that significantly have political and technical dimensions.

And with that rather bitter, but kind-hearted introduction, let me turn now to Charlie.

MR. BAKER: Thank you, Hillary, and I see that we're already behind, so I will try and speak for less than ten minutes.

MS. GREENE: Okay.

MR. BAKER: Thank you for the opportunity to testify at these important hearings. While you mentioned some of the organizations that I am associated with or have been associated with, the views expressed today are my own, not those of my firm or the IP Law Section or the ABA.

And this morning I want to focus on three topics. By way of background relative to these

hearings, I want to touch briefly on the overall subject of whether competition in IP law is different in a knowledge-based economy. Then I want to talk briefly about the topic of this panel -- jurisdiction of the Court of Appeals and the Federal Circuit and here I may spend some time on the Holmes versus Vornado case, since nobody has mentioned that yet.

Finally I want to review the jurisprudence of the Federal Circuit. I think you'll find I have essentially the same thing to say as has already been said, that it seems to me the Federal Circuit is comporting with the Congressional intent to bring about uniformity in the mainstream of current law at the patent antitrust interface.

The reasons that are argued for exclusive rights and interventions in creative works are the same, it seems to me, in the knowledge-based economy as they are in any other. The exclusive rights created by patent law, copyright law, trademark law, are not so important for people like inventors, it seems to me, as they are for investors. The investor who could invest in real estate could invest in old plants, or could invest in new plants and make new jobs.

Just suppose you're on the board of a large chemical company, and they've got in the lab a new

fiber, and they've got in the plant a fiber they've been making for 20 years. They have to make a decision, are we going to spend $500 million to build a new plant to make this new fiber, or are we going to spend that money to improve our old plants and sell our old fiber better?

They make that decision, in part, based upon their patents and their intellectual property. I'm going to speak mainly about the real world, because that's what I know about the most, and I think that that kind of thing -- that encouragement to invest -- is appropriate just as much in a knowledge-based economy as it is in what you might say our older economy.

For example, one of the issues presented by these hearings is whether or not the subject matter of patent grants should be changed. It seems to me that if you start to draw distinctions like whether business methods should be patented or not, then you get into several practical problems.

First of all, where you draw the line between what's a business method and what's not. You say it's not a business method if you include a form in the claim, and therefore it's patentable. These kinds of distinctions are silly.

But more to the substance, if a method of doing business is novel and not obvious, and you would like to

encourage investment to develop that method of doing business and make its benefits available to all, it seems to me that you should include it within the patent system.

Another issue that sometimes perplexes me as a practical person is the theoretician's talk about blocking patents. In the real world, those seldom arise. It's true that when a pioneer invention is made, no one else but the inventor can use it. At that stage, however, much development remains to be done and there are not many people who want to use it.

I have in mind Chester Carlson's development of xerography. He had a hard time finding anybody to invest in that. IBM turned him down, RCA turned him down, he finally found a small company in upstate New York who would spend some money on him. After technology develops, blocking patents seldom arise because there are ways to work around the patent claimed technology.

Bob has already spoken at length very well and the paper's kind of even better about the reason for uniform appellate review for patent matters. It seems to me that the same reasoning applies just as much to matters of the patent -- antitrust interface. There's legislative history support for that, which is where the

Senate report refers to the patent claims involving patent misuse being before the Court of Appeals for the Federal Circuit.

There was a recent case which everyone is talking about called Holmes versus Vornado. In that case, the Supreme Court apparently narrowed the Federal Circuit's jurisdiction, though the extent of that narrowing is not yet clear. In that case the Supreme Court held that the Federal Circuit lacked jurisdiction over an appeal when the complaint raised no claim arising under the patent laws, but the answer included a compulsory patent law counterclaim.

According to Chief Judge Mayer of the Federal Circuit, as reported in the National Law Journal, Holmes is likely to limit the availability of the Federal Circuit review and permit forum shopping. Both results may return the state of the law to that existing before the Federal Circuit's creation.

I don't necessarily share the Chief Judge's belief that the Federal Circuit docket will be substantially reduced as a result of Holmes versus Vornado. Justice Scalia's decision in that case referred to the Christianson versus Colt decision that's referred to on page 15 of my paper, and it's got an alternative basis in it, which I don't think people have

focused on yet. Let me read it for you: "The plaintiff's well-pleaded complaint must establish either that the federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of substantial question of federal patent law."

So, it seems to me that that arguably includes Walker Process and Handgards claims, and Lewellyn's claims for unenforceability under 271(d). It's even been speculated by the -- I believe it's in your report, Jim, although my recollection may be fuzzy on that, that appeals from cases like the recent FTC decision in Schering-Plough might abide to the CAFC under Christianson, but that we can abide by the event.

The people who say that Holmes versus Vornado, is going to change, will have an impact upon the Federal Circuit's case load refer to the decision just on July 2nd. In that telecomm case in which the court transferred an appeal that had been pending in the Federal Circuit since the year 2000 to the 11th Circuit. I think, if you analyze that, you'll find out that's not going to be an important case in the patents area, because there the antitrust defendant attempted to justify its refusing a deal based upon trade secrets rather than patents.

What if the defendant had asserted that his conduct was exempt under 271(d)(4), because the equipment was covered by a valid expired patents -- unexpired patents, would the Federal Circuit have transferred the case back to the other circuit on that case? I don't know, that's another thing to be determined.

Now, in my paper I address a couple of areas of law where it seems to me the Federal Circuit is complying with the mainstream of patent law, and I won't go into those in detail. I will say, though, that it seems to me from reviewing the various cases that the different panels of the Federal Circuit almost universally have pushed the antitrust envelope in the same direction, but apparently based upon the recognition that the court's primary mission is to provide uniformity and predictability in the application of patent law.

It, therefore, seems to me that anyone seeking a predictable result in these patent law/antitrust law interface areas will consider ensuring that the appeal can be taken to the Federal Circuit.

Thank you.

MS. GREENE: Thank you. Now let's turn to George.

MR. GORDON: May I approach the podium?

MS. GREENE: Please, yes.

MR. GORDON: Let's see if I can get this thing to work. Let me thank the agencies for giving me the opportunity to express my views here and note that, like the other panelist's today, the views are mine, they are not those of my firm, Dechert or its clients.

I'm going to try to be quick to get us as close to back on schedule as possible.

I would like to talk and cover three principle areas this morning with respect to Federal Circuit jurisdiction. The first, briefly, I want to talk about how it is antitrust claims have gotten themselves before the Federal Circuit, because I think that is the source of some of the discomfort or concern from certain members of the antitrust bar about the development of any appellate jurisprudence by the Federal Circuit.

Secondly, I want to talk about where the law stands vis-a-vis the Congressional mandate. Then, finally just touch on at least my views on some of the implications of all this for the development of antitrust law.

Antitrust issues come before the Federal Circuit in a variety of different scenarios, given the breadth of arising under jurisdiction. Arising under

jurisdiction, as Charlie alluded to, requires either that the claim be a creature of federal patent law or the second prong of the test under Christianson that the claim include a right to relief that requires the resolution of a substantial question of patent law.

Given that, there are really three primary scenarios in which an antitrust claim can come before the Federal Circuit. The vast majority of antitrust claims have come before the Federal Circuit in the context of antitrust counterclaims to patent cases.

In that situation, given the existing statute, and the legislative history, Federal Circuit jurisdiction is fairly unassailable. There are also situations where the antitrust claims come to the Federal Circuit joined or consolidated with patent claims, for example, an antitrust claim that might be combined with a declaratory judgment action on validity or infringement. Again, under the statute as written, pretty noncontroversial for the Federal Circuit to assert jurisdiction.

Antitrust claims can also come under Christianson's second prong. That has not yet been really a source of appellate court jurisdiction over antitrust claims, but I think, as I'll mention in a moment, that may change.

As Charlie mentioned, one way that antitrust claims can no longer come before the Federal Circuit is because a patent claim is pled in the counterclaim, after there were not a decision. I think one of the facts that has led to some of the concern by members of the antitrust bar with respect to Federal Circuit appellate jurisdiction is that the court can hear antitrust issues and has heard antitrust issues even when there is no longer a patent claim involved in the case.

There have been cases where the Federal Circuit has considered nonpatent issues where the patent claims were dismissed with prejudice by stipulation, where patent claims have been separated for trial. It's raised a question among a number of members of antitrust bars of whether or not in that situation, particularly where the patent claims have been dismissed and/or are not being appealed, whether it really furthers the purpose and the goals of creating the Federal Circuit to create uniformity in patent law for the court to be ruling on and consider antitrust issues in that context.

Moving forward, in terms of the paths that antitrust issues might take in the future to get to the Federal Circuit, I think we may see a lot more activity regarding Christianson's second prong. The court has in

the fairly recent past expanded its jurisdiction under that prong, both in the context of claims based on the bridge of a license agreement, and claims based on state tort laws where the claim is premised on false statements regarding patent rights.

There are a number of cases that are in the trial courts now that I think will give the court an opportunity to clarify how it is Christianson's second prong is going to apply to antitrust claims. For example, there are quite a few cases -- just quickly, last night I was making a listing and came up with at least a dozen in the pharmaceutical context where private parties and purchaser classes had brought antitrust claims against pharmaceutical companies based on claims of sham litigation, Walker Process theories, allegations of unlawful settlement agreements, akin to the Schering-Plough situation.

A number of those cases raise interesting questions with respect to whether or not the plaintiff's right to relief requires the substantial resolution of a patent issue. I think the sham litigation, fraud on the PTO cases may present easier cases for Federal Circuit jurisdiction. More interesting questions may be posed by the cases where the claims really are based on either largely unlawful patent listings in the FDA Orange Book

or in where the claims are based on allegedly unlawful patent settlements.

One can easily imagine a number of other scenarios, including cases related to patent pooling, merger enforcement cases, where the right to relief may turn on questions related to whether or not the participants are horizontal competitors, which in turn might require the resolution of a substantial question of patent law with respect to the parties' intellectual property portfolios.

Briefly, where does this all leave us with respect to the Federal Circuit's mandate from Congress? There's a little question that the Congress -- which was attempting to create or achieve a balancing act in creating the court -- the Congress did anticipate the court would consider antitrust issues. I think there had been some commentators that have mentioned that the Federal Circuit has no business or no place developing antitrust law. I'm not sure that's really supported by the legislative history, but it's also true that Congress expected the court to guard zealously against unwarranted expansion of that jurisdiction.

The critics of the court tend to focus on the legislative history, the snippets of legislative history that speak to plaintiff's trying to grab jurisdiction in

the Federal Circuit by attaching patent claims to antitrust claims. But, it's fairly clear from the legislative history that what Congress was really interested in there is whether or not plaintiffs were trying to attach or parties were trying to attach trivial patent issues to substantial patent claims.

And while there do remain, I think, possible areas of tension post-Vornado, the fact is that from the perspective development of antitrust law, I'm not sure that any of these issues really have affected the antitrust claims that have been considered by the court. So, I think, you know, the fact is that most of the court's antitrust appeals have fallen fairly clearly within its jurisdiction.

Briefly, just turning to implications, maybe some of which we can take up during the discussion period, probably the primary area of debate has been to what extent has the Federal Circuit undermined antitrust principles or elevated patent principles at the expense of antitrust principles? Critics often point to the record of antitrust claims in the Federal Circuit, which is quite poor.

The fact is that, when you look at the cases, the evidence that there is any animus towards antitrust principles in the Federal Circuit is not overwhelming.

There's a very strong argument that the holdings have been in the mainstream of antitrust law. In fact, there are certainly examples of situations such as the court's decision in Nobelpharma, in C. R. Bard, where the courts have upheld verdicts on behalf of antitrust claimants on theories that have more often than not failed in other circuits.

Much of the debate, I think it is true, has been driven by dicta and not actual results, and really dicta in a handful of cases, particularly CSU and Intergraph, but to point out that the debate is driven by dicta is not to diminish it. The fact is that Federal Circuit dicta does have an impact. The Supreme Court does not often review Federal Circuit antitrust decisions. In fact, I don't know that it has ever reviewed a Federal Circuit antitrust decision, and lower courts pick up on the dicta. In the Townsend case, in the Papst case, lower courts picked up on dicta from the Federal Circuit and applied it in the cases before them.

So, there is a real concern, I think, among members of the antitrust bar that concentrating decision-making power in one circuit, even where that circuit gets it right on the results, can skew or have an adverse effect on the development of antitrust law.

Finally, let me just mention briefly, I think

the other area of debate and concern among members of the antitrust bar from my view is the question of the goals of uniformity versus the benefits of "percolation" of issues in the regional circuits. That debate has, I think, manifested itself most clearly and recently over the debate of the impact of Vornado.

Many who looked to uniformity as being the appropriate goal here are bemoaning the decision, while those who, like Justice Stevens, see the opportunity for some debate among the circuits as being a good thing, have lauded it. And I think this really points out a key institutional question on which the statutes are not clear and the legislative history is not clear, and that is: Who should be deciding this question of how the patent laws and antitrust laws interrelate?

I think it's fairly -- it's one thing to say the Federal Circuit is -- should be deciding issues with respect to patent law doctrine. It's another thing to say the Federal Circuit should be the only circuit deciding issues with respect to the relationship between patent law and antitrust law and how the patent law fits into the wider mosaic of rights and obligations in our legal system.

In terms of the impact on the agencies, I think it's two-fold. Obviously enforcement actions and many

more enforcement actions have focused on IP-related issues that are brought in the district courts may find themselves before the Federal Circuit as they wind their way through the courts. I have even heard it argued that under 15 U.S.C. 45(c) there might be situations where administrative actions and orders from the FTC could be appealed in the proper circumstances to the Federal Circuit. But regardless of the appellate forum, even after Vornado, it's pretty clear that the Federal Circuit is going to have a significant role in shaping antitrust law, and that regardless of the appellate forum, that Federal Circuit precedents are likely to carry significant weight with many of the courts in which the agencies litigate.

Thank you.

MS. GREENE: Thank you very much. Still more information to add to the table, which is already overflowing and it's 11:10. Does anybody have any comments that they would like to make straight-away?

One of the things that we might start talking about is are there any additional perspectives on questions about the origins of the Federal Circuit or legislative history, or questions -- statements about that before we move on to looking at more of the jurisdictional questions?

(No response.)

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

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

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

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

outcome of a patent infringement case, particularly on validity issues.

There were some differences between the circuits in outcomes, as reported in Gloria Konig's book. One of these days I hope to find the time to do an analysis and see whether the differences, in fact, have any statistical meaning.

Since the advent of the Federal Circuit, we have introduced extreme uncertainty into the evaluation of the validity issue. The mandated consideration of secondary factors, coupled with the instruction that the way to resolve the issue is to consider the evidence collectively, has left us in the position where we know from the statistics something on the order of 60 percent of the patents in which there are validity decisions in the Federal Circuit will be upheld as contrasted with the 67 percent that were found invalid prior to the Federal Circuit. But the ability to decide which ones are going to be valid and which are not has been substantially diminished. This, of course, was illustrated in our Polaroid case, where we were adjudged to have applied a patent clearance process that was a model for what the law requires, and yet we were wrong as to 60 percent of the patents that were litigated.

So, one needs to think about the differences

between predictability, uncertainty, what you mean. The changes that we have made have resulted in a higher percentage of litigated patents being held valid at the Federal Circuit level, but substantially less ability to predict outcomes.

The effect of the uncertainty, the inability to predict outcomes manifested itself in increased capital costs for innovation investments. So, it's not something that is cost free to society.

MS. GREENE: Yes?

MR. HOERNER: If I might speak briefly to what Bob Taylor said about the patent system. It is true that what was written in the Constitution is a granted authority, but that was against a backdrop of practices by the King of England who would grant unlimited monopolies to necessaries and to things that had already been invented.

So, in many senses, the grant of authority to issue patents in the Constitution was for the purpose of limiting what we could do. You could only grant a patent for limited times, and only to inventors, echoed in many respects the statute of monopolies that was passed by the legislature of England back in 1624.

My experience in 35 years, which of course is limited to clients I worked for, suggests that most of

the companies that I know anything about would engage in research and development about at the same level they do now, whether there was a patent system or not. Because they have to keep up with their competition, they have to maintain products that will be bought by customers rather than buying their competitors' products.

I think that the value of a patent is very often to start-up companies who need financing. I think people who grant venture capital want to see a patent, and only incidentally, although it's very important, when you have it, only incidentally in trying to keep your competitors' products out of the market.

So, I think that a patent system is important, but it's important because it allows the little start-up companies, the folks with big ideas but small monies, to get a foothold in commerce and to develop the kinds of things that, for example, Xerox finally did.

MS. GREENE: Steve?

MR. KUNIN: This may be a little repetitive from what was covered yesterday, but I think it's worth repeating in view of the question that was raised in terms of what is uniformity and consistency all about. Yesterday, it was mentioned that one aspect of promoting uniformity and consistency right now seems to be focused intensely on claim construction because depending upon

claim construction, many times that will determine the outcome of the case.

One of the problems is that it appears that you don't know what the claim means until the Federal Circuit tells you, because there's a lot of flipping of the District Court's claim interpretation, and that what appears to be the case now is that there is a large body of judge-made law on how to properly interpret claims.

The question, I think, to some degree, is whether while in the interest of coming up with certain rules on how to interpret claims as to whether actually the Federal Circuit has been consistent in the way in which they've been applying those judge-made rules.

So, I think to some extent if after Markman, since claim interpretation is a matter of law, so that any circuit judge can say, well, the district court judge, you know, can do what he or she saw fit, but since this is a de novo determination, I can turn everything around by how, you know, the claims get interpreted.

So, I think to a large degree, one aspect of this, if going back to yesterday in terms of trends, it appeared that a trend that came out of the discussion yesterday was that there seems to be a lot of focus on rules for interpreting claims as a trend in the build-up

of body of Federal Circuit case law.

MS. MICHEL: Was your point, let me see if I'm understanding, that this is the kind of area where the application of legal rules to facts is so intertwined and that it's not, let me ask you, is it fair to talk about having uniformity of legal rules as being some kind of a separate idea, or do we really need to get beyond that and think more about how the legal rules are applied to the facts in this peculiar area of patent law?

MR. KUNIN: Well, to me the short answer is there have been historically in patent law a certain number of rules that have existed. Those rules are the ones which, to some degree, are stated as first principles and then you look to the facts of the case as to whether the rule is to be followed as a general rule or is there an exception to the rule. I'll just lay out a couple of quick examples so that what I'm saying is not too vague.

The first aspect is there's been a large body of law with respect to how to interpret preambles in claims, as to whether the preamble serves as a limitation on the claim. There's real old case law, Kropa v. Robie, that says if it has to breathe life and meaning into the claim, then there has to be considered

limitation on the claim.

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

And then you get obviously into certain rules with respect to the body of the claim and rules such as: Broadest reasonable interpretation of the claim, the statutory considerations of 112, sixth paragraph, which bring central claiming into a peripheral claiming system, and other kinds of considerations.

So, first I think there's sort of a normative setting basis in terms of how you structurally go through a claim, and make certain at least initial determinations using certain rules. But then you have to go into the specifics, because, for example, if you're going to say, what is the broadest reasonable interpretation of a particular limitation in a claim or element or term, then you go back and say, for example,

here's a rule, has the definition of this term been especially defined in the written description? The applicant is his or her own lexicographer.

Therefore, in this case, you can't use the ordinary meaning of the term, you must use a specialized meaning of the term, because the applicant has created a definition.

Well, in that particular situation, first you have a rule, and then you look in the facts of the case to determine whether, indeed, there's a special meaning there that's applied. If so, then you follow the rule.

So, I think to a large degree my comment was because I think Markman had a very significant impact with respect to the normative process of determining what are the metes and bounds of the protection, and that is essentially strictly a matter of law, then you've got to set up certain rules to go through that process, and then once you know the rules, you can apply them to the facts of the case.

Therefore, I think what we're finding is if district court judges are going to be educated, and those who write applications are going to be educated to improve predictability, as Cecil was mentioning, then you better understand what these rules are, so that you can write the claims in accordance with the rules so

that they will be interpreted consistently with those rules, and then at the end of the day you'll get greater predictability. But the real rub is whether you have a court actually being consistent. I think part of the problem is we see to some degree panel-by-panel, or case-by-case, that it's very hard to reconcile that the rules are actually consistent or that the application has been consistent.

MS. GREENE: Jim?

MR. KOBAK: I've got two or three, I'm afraid somewhat random observations, but first of all, I just want to clarify the record. Charlie referred to the report as my report, it's really the report on the Federal Circuit of the Antitrust Section, and it's really George Gordon who was head of the task force that prepared it. So, I just want the record to be clear on that.

First of all, on the question that you asked about uniformity, I think that you tend to focus a lot on questions of validity and enforceability and so forth, but I think there are other areas where having one court has been very important, and one that I would point to is the area of remedies -- the ability to get injunctions, damages. I think the law in those areas has been changed very profoundly by the Federal Circuit.

I think there's much more clarity and predictability about what the rules are that might apply to a certain situation. I think that's had a tremendous impact on patent litigation because it gives people many more incentives to litigate their patents than might have existed 15 or 20 years ago. So, that shouldn't be lost sight of.

Charlie and others have referred to the effect of patents on not only innovation, but also investment. I think there's a third part of it that shouldn't be lost sight of, which is licensing. Without having a patent system, having a trade secret system or something like that, it can be very difficult to have people efficiently transfer information from the inventor or even the investor to maybe the company or entity that's best able to exploit and develop it.

And it seems to me it's a good thing for society not only that inventions are made as a theoretical matter, but that they actually are developed commercially and gotten distributed effectively and gotten into the hands of consumers and people that we want to protect, both under the patent laws and the antitrust laws.

Whether patents are actually necessary to encourage innovation is, I think, even though I'm an

antitrust lawyer, really not a subject that is an appropriate subject for antitrust. I think antitrust has to take the patent laws at more or less as it finds them. I think that means that you have, as Bob Taylor said, the right to exclude, which to my way of thinking is a very fundamental aspect of a patent that antitrust should be very, very loath to interfere with.

And, therefore, I'm not sure how I would come out on a really pure refusal to license question, but -- and I think that probably everybody these days would agree that just saying, well, someone has done something outside the scope of their patent shouldn't be an antitrust violation in itself. Maybe it could be a misuse in some circumstances, because there's really kind of a separate basis for that.

But I don't think -- I guess I differ with Bob in that I think that antitrust has tools for looking at restrictions that are put in licenses or other kinds of restrictions, even if somebody has gone outside the right to exclude, and I'm fairly confident that most of the regional circuits can do a reasonable job of applying law if there's bad precedent in their circuit, I think that they look in other places.

If you look at the Kodak case, you may disagree or not disagree with the way that case came out, but

certainly the Ninth Circuit didn't just look to Ninth circuit law. It looked to Supreme Court precedent, it looked to precedent in other circuits, it looked to precedent in the Federal Circuit itself, the Atari case. So, I think you can depend on the regional circuits to do a reasonable job of balancing antitrust with patent principles.

I'm going to get to this more in my remarks, but I think that in an ideal world, you might have a choice of law rule that said when there's really a patent issue that's involved in the antitrust issue, a real specific patent issue like validity or scope of the patent, and that's necessary to decide the antitrust issue, the Federal Circuit law would apply to that because they're likely to get the case anyway. But once you get outside of that area and you don't have a question like that, at that point you're just talking about general patent policy versus general antitrust policy, and I don't see why the regional circuits aren't in at least as good if not a better position to decide issues like that.

MS. GREENE: The gray area to which you just alluded is something that you're going to get to later, and we really do need to explore it.

Charlie, did you want to respond?

MR. BAKER: I just wanted to go back to Michel's

question. I won't take long.

When I was speaking about uniformity, I was speaking about uniformity and structure, so that now we have all appeals going to the same appellate court. So you don't have as much forum shopping within district court, you don't have courthouse games played. And lawyers, while they might spend more time trying to figure out what's going to happen when they get to this single court of appeals, depending on which panel they get -- as Steve mentioned. And they don't know that until the morning the appeal is argued.

They don't spend as much time saying: Are we going to sue on this side of the Missouri, in the Eighth Circuit, or is it on that side of the Missouri in some other circuit? So, there's no question that that degree of uniformity is helpful in some ways.

MS. GREENE: Bhaskar?

MR. BHASKAR: In the Joy of Cooking there's a really great description of the difference between uniformity and consistency, and I found that a meaningful point to start today. It seems to me that although there are questions about legal process that are uniform. For me, uniformity has always meant two kinds of things. I speak now as an unbalanced computer scientist. That is, there is a question of uniformity

of discipline, so that one of the questions is in 1980, should computer science patents have been considered differently from, say, drug patents or chemistry patents? I'm prepared to argue that, in fact, there was such a need for uniformity and distinguishing between different disciplines.

However, an established discipline is different from what was then considered an emerging discipline, like computer science.

The second kind of uniformity it seems to me is the institutional uniformity, particularly with regard to international questions.

Among the various mailing lists, I regularly get something called IP Health, which is -- as it turns out on IP Health. The bulk of the people who write there are people who live in the United States, and the bulk of the issues there are international issues. The proposition that I offer, not necessarily particularly enamored of it, but I think I would like to understand it, is that perhaps what we now have that we didn't have in 1980 is a complex institutional structure, the WTO, the WIPO, different kinds of remedies by different regional and international groups. So, it seems to me that maybe that's an issue: The Federal Circuit was created at the dawn of a particular era, and now maybe

it's not the dawn anymore.

MS. MICHEL: Let me move on to another topic that George raised, and this is the topic of the Federal Circuit exercising jurisdiction over an appeal when there are no longer any patent issues remaining in the case and the concern that that raises. I would like to get your comments on, first of all, is that a concern and why? Second, is it driven by the statute? Do we want a different system? If so, what do we need to do to get there?

George, to what extent -- I'm sorry.

MR. TAYLOR: Go ahead with George.

MS. MICHEL: George, can you expand at all on what the Federal Circuit's views of this question are, or its ability to exercise jurisdiction over cases when no patent issues remain?

MR. GORDON: Sure. I think first the question of you have to start with the statute, as you mentioned. I think, to a large extent, the answer to the question is driven by the statute. The statute provides pretty clearly for "arising under" jurisdiction. The Supreme Court has told us that that means you have to look to the well-pleaded complaint, and there's many statements in Federal Circuit cases that suggest the Court looks to the complaint as filed, and jurisdiction is set as of

the time of the filing of the complaint.

The theory that I think the courts applied in the context is you have to define how the patent issues get out of the case. If the patent claims are withdrawn voluntarily in the case, there's Federal Circuit precedent suggesting that the court would not have jurisdiction in that situation. But if the claims are dismissed with prejudice, even if they're dismissed by stipulation, there's authority suggesting that jurisdiction would attach. The theory in some of the cases seems to be that a dismissal operates as an adjudication on the merits.

So, it doesn't really change the nature of the case the plaintiff is bringing, it's just simply an adjudication of the patent issues. So, therefore, it's still properly the case "arises under" the patent laws.

If it's a problem, if it is indeed a problem, to fix it probably would require some legislative fix. I think it's been suggested that one way to kind of take a different look at Federal Circuit jurisdiction would be to look at it from the perspective of the case as actually litigated. Look at the case not at the time that it's filed, but at the time it's ripe for appeal. Look at which issues are being appealed and what remains.

One other thing that can be done, I think, on this issue -- and Congress invited this in the legislative history -- is for district courts to exercise more discretion in severing patent and antitrust claims, issuing partial final judgments under 54(b). It's not clear how the Federal Circuit, whether or not the Federal Circuit would consider a partial final judgment sufficient to decline to exercise jurisdiction.

For example, if you had a partial final judgment on a non-patent issue, in a patent claim, there are some authority from the Ninth circuit suggesting that in that situation, the appeal should go to the regional circuit. But short of legislative fixes, there may be ways for the district courts to operate to use some of the procedural tools at their disposal.

MS. GREENE: Bob?

MR. TAYLOR: I guess the way that Suzanne framed the question was whether there's a concern in having Federal Circuit adjudicate these non-patent issues. I guess I would simply remind you that the Federal Circuit is an Article 3 court, they typically apply the law of the regional circuit, they sit just like the regional circuit would sit, and I don't know that anyone can make a case for the proposition that you're going to get a

significantly different quality of adjudication or quality of analysis in the Federal Circuit. The court sits frequently with people from other courts sitting by designation. The court has been pretty good about bringing in trial judges, for example, to sit with it by designation.

So, I don't think it matters. It seems to me that the question is very similar to the question that arises when a state law cause of action is joined to a federal cause of action, which for one reason or another is fully adjudicated, leaving only the state issues to have to be resolved by one of the regional circuits, it happens all the time, and I don't think anyone is troubled by it.

MS. GREENE: Matt?

MR. WEIL: Well, we're getting toward the end of this period, so I am going to accuse Bob of reading notes over my shoulder.

The problem really is what does the court do with that case which lies outside the mainstream of its jurisdiction once it gets there? The question is: Is the court going to apply its own law or is it going to look to regional circuits?

So just foreshadowing my own comments later in the afternoon, I think when you ask the question is

there a problem, as Bob has just said, if the court exercises its capacity to look to other circuits and adopt and apply their laws, or even to formulate an approach consistent with the regional circuit, the answer is going to be no, that's not a problem. The question is when the court reaches out and says, now this is swept within our particular jurisdiction, and we're not only going to entertain the question, but also apply our own law to it, then you have at least a theoretical question of whether that's at odds with the way our system is in other ways structured.

MS. GREENE: Okay. You all get to vote. I'm looking at Bill when I say this, we can either take a five-minute break or just continue on through to 12:30? It's up to you all, I say we just continue.

Okay, George?

MR. GORDON: Just to respond briefly to Bob's comment, I don't disagree that there's no reason to believe that the quality of judging on the Federal Circuit is any different than the judging you get on the regional circuits. I think the issue again goes back to the institutional question of the fact that there's a concentration of decision-making authority in the Federal Circuit. The fact that you have antitrust issues going up there when there's no patent issues

just, I think, exacerbates that issue, particularly in the context where you have obviously a trend in the court to applying its own law to more and more antitrust issues. Not only issues related to Walker Process, but also now refusals to deal.

What this does is it deprives the regional circuits of the opportunity to develop views and express views on some of these topics. It deprives, I think, the system of the benefit of getting a multiplicity of views on some of these issues. So, it's not a problem with the Federal Circuit per se, as a federal circuit hearing these issues, it's a problem that we have one court hearing these issues. I think that's the concern that many in the industry have expressed.

MS. GREENE: Cecil?

MR. QUILLEN: Without intending to sound critical of the Federal Circuit or suggest that you get a lesser quality adjudication there, it is a specialist court. It does have a limited jurisdiction. When it reviews antitrust cases, it's an unusual thing for the Federal Circuit. Whereas the regional courts of appeals have much broader jurisdiction, the breadth and experience that the judges bring to their work is considerably broader than the breadth of experience that happens at the Federal Circuit.

That might or might not result in a lower quality adjudication. I express no view on that subject.

MS. GREENE: Nothing is noted, then.

(Laughter.)

MS. GREENE: Rochelle?

MS. DREYFUSS: I have a question. Do people think it's at all helpful for the Federal Circuit to be seeing more antitrust cases? I think for two reasons one might say yes. One is that they are inevitably going to have some of them and having a few more in some other context, not just ones that sort of come up in very specific patent cases some might argue would be helpful.

The second is actually addressed to Bob Taylor, you mentioned the fact that all of these intellectual property laws have their own ways of dealing with competition. I wonder whether there are not some spillovers so that seeing more antitrust cases actually has an influence on the way that the court thinks that a patent is used or some of the other areas and whether people have feelings about that.

MS. GREENE: Bob?

MR. TAYLOR: Yeah, I do think that the Federal Circuit, because there has been something of a

re-assertion of antitrust, if you will, in the last few years, that had lain somewhat less active for a period of time. I think the Federal Circuit will be seeing more antitrust cases, and I think with the opportunity to study those antitrust cases, you will see that court develops very much along the same lines as the regional circuits have with respect to their antitrust jurisprudence, which goes back way, way longer than the 20 years that the Federal Circuit has sat there.

I find an interesting decision to be the C. R. Bard versus M3 case, where the panel affirmed the finding of an antitrust violation arising out of a design decision by C.R. Bard. In the denial of the petition for rehearing in that case, Judge Gajarsa takes special note of the fact that don't read too much into this decision because we didn't have a fully developed record here. That to my mind is precisely the kind of cautionary note that reflects this growing experience with antitrust.

I said earlier that I think some of the questions, or many of the antitrust questions do get resolved out of simply recognizing the exclusionary power of a patent, the exclusionary right that attends a patent. But I didn't mean to suggest, and a couple of other commentators have made the point, I did not mean

to suggest that there will not be many, many serious antitrust questions that do get presented to that court, and I think it is going to have to develop the expertise, but I think it is, in fact, doing it.

MS. GREENE: Jim?

MR. KOBAK: If you take the Xerox case, you have the Federal Circuit applying its law to the refusal to deal question involving patents, yet in the same case, you have a copyright or copyrights and essentially the same question, and then the court has to say, well now we're looking at the Tenth -- I guess it was the Tenth Circuit -- rather than our own law, yet, of course, they come out their own way.

But that suggests to me that regional circuits might have experience in areas beyond patents that the Federal Circuit wouldn't see so much of, and that it might be better for the Federal Circuit to look to that body of law rather than to try to develop their own.

Having said that, I think before the Federal Circuit changed its choice of law rule in Nobelpharma, it was at least in theory looking at regional circuit law, yet it would sometimes find that there wasn't so much law in any particular circuit, so it would have to do some kind of effort of synthesizing and assimilating law from all over the place. It seems to me that's what

will happen in the future, but I guess if I were drawing on a clean slate, I would say that it might be better to have the regional circuits, because they can look at refusal to deal licensing questions involving patents, but they can also get experience in other areas to perhaps a greater extent than the Federal Circuit would.

MS. GREENE: Charlie, the moment passed for your comment?

MR. BAKER: It did.

MS. GREENE: Roxanne?

MS. BUSEY: I just wanted to make an observation and again show maybe a little different perspective between the intellectual property bar and the antitrust bar. The intellectual property bar has obviously supported the Federal Circuit in the belief that a single court for determining patent issues is appropriate. I would be very surprised if the antitrust bar would ever want a single court, whether it's the Federal Circuit or not, to be deciding antitrust cases. The antitrust bar, I think, supports percolation and multiple jurisdictions. Knowing all of the problems associated with that, they would rather have those problems than the problems you might have if you had a single antitrust court.

MS. GREENE: Bhaskar?

MR. BHASKAR: I guess I want to repeat what Cecil and Roxanne just said, only not so well. It seems to me that we are stuck with this really odd situation. If, as I am childishly hoping, we find out that the WorldCom situation or the Enron partnerships involved substantial fraudulent manipulation of patent applications, patent claims, and so on, things that involved ownership questions, things that involved claim construction questions. I would be really interested in seeing how the law gets applied, and where the cases end up, because there will be questions of claim construction.

The second thing that I do think is that we seem to be in this odd situation of saying we don't need -- we don't have science courts, so we don't have specialists, judges or anything, except immigration judges in the administrative sphere, and then we say, when we have something that seems to require a specialist's understanding, like Judge Jones did in the Reston Plant cases, you appoint a master or you appoint a group that says this is how we're going to try and understand this special question.

It seems to me that if we're going to sort of go after these things, I have always wondered how come we don't see more use of masters in the Federal Circuit

where you should see that more than once issues come up that people outside of some arcane discipline or the other might not feel quite up-to-date.

MS. GREENE: Charlie?

MR. BAKER: I wanted to comment on Roxanne's talking about the single court for the antitrust bar and the IP bar. First of all, the IP section of the ABA didn't want the Court of Appeals for the Federal Circuit, they would prefer more of a diversity of views. The ABA was out-voted, if it had any vote at all.

On the other hand, one of the factors which led to it was the fact that in those days, the Supreme Court was taking virtually no patent cases. Would your answer be the same if you had no antitrust cases going to the Supreme Court and then --

MS. BUSEY: We have very few. Very few.

MR. BAKER: Maybe you're getting there, I don't know.

MS. GREENE: Cecil? Then we're going to turn to Bob.

MR. QUILLEN: The comment that the Supreme Court had taken no patent cases is part of the mythology that surrounds the Federal Circuit. The Supreme Court decided Graham and Adams in 1966, I believe, and subsequently has taken at least three cases involving

section 103 reiterating each time the high standard for patentability that was promulgated in Graham and Adams.

So, this was a slander on the Supreme Court that was propagated by somebody during the course of the legislative debate.

MS. GREENE: Well, okay. Bob? We're going to add yet one more issue to the table, Bob is going to talk about patent misuse, and even though when it comes to patent misuse we don't have any burning jurisdictional question as to whether or not that would fall within the purview of the Federal Circuit, there are certainly questions being raised by the development of the doctrine now that it's ensconced within that circuit.

MR. HOERNER: Thank you, Hillary.

I suppose I have to begin with the usual disclaimer that I speak for myself and not for my former firm, Jones Day Reavis & Pogue and not from my clients past and I hope, from the standpoint of my pension, future.

The topic assigned to me for these hearings is patent misuse. I am sure that most of you are generally familiar with the doctrine. If not, its history and antecedents can be found in a monograph, Intellectual Property Misuse: Licensing and Litigation. The types

of practice held to be or evaluated as possibly being patent misuse are cataloged in a 1991 article which I wrote which appears in 59 Antitrust Law Journal entitled, Patent Misuse: Portents for the 1990s.

Actually, however, it may well be that this topic is an anachronism. In a series of cases beginning in 1988, the Federal Circuit appears to have effectively abolished the doctrine at least as it concerns so-called extension of the monopoly misuse. A decision less than a month ago by the Seventh Circuit, which Bob Taylor adverted to, by Judge Posner, gives promise, however, that the Supreme Court may revisit the doctrine, so we shall have to wait and see.

Any discussion of patent misuse must begin with an appreciation that a patents grant only the right to exclude anyone without authority from practicing the claims of the patent. The patent does not authorize its owner to make or use or sell anything. This right to exclude is enforced only by "civil action or infringement of a patent."

Patent misuse renders the patent unenforceable until purge. Having in mind that patents grant only the right to exclude, which can only be enforced in Federal Court, a holding of unenforceability by reason of patent misuse totally and completely destroys the patent right

until purge. No wonder, then, that patent misuse and the permissible bases for finding patent misuse have created controversy for over half a century.

The "misuse of the patent" doctrine originated by name in a 1942 case, Morton Salt versus G. S. Suppiger Co. There Morton Salt sued a direct infringer of its patent covering a canning machine. Morton required its licensees, which did not include Suppiger, to use salt tablets purchased from Morton. While the Supreme Court expressed concern that Morton might be using the patent code as a means of restraining competition in salt tablets, it refused to consider whether Morton's licensing practices violated Section 3 of the Clayton Act, since it considered that Morton's licensing program was, in any event, contrary to public policy.

What public policy? The public policy which includes invention within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office.

The decision did not rest on an anticompetitive effect of Morton's practices, or on an actual or incipient supposed monopoly on salt tablets, and thus

had little to do either with economics or with antitrust. It rested on the fact that Morton was trying to exclude its licensees from engaging in salt tablet commerce when salt tablets were not included in its claims.

Here is where the controversy with respect to patent misuse arises: Many practitioners, law and/or economics professors, government antitrust enforcers, and even judges, think that patent misuse is a sort of junior level anticompetitive practice which didn't make the antitrust violation big leagues and so is awarded only patent misuse nomenclature as a consolation prize.

They feel, however, that the possible results of a finding of the patent misuse -- unenforceability until purge; standing not required; competitive injury not required; vague contours of the doctrine based, as it was, in part on the doctrine of unclean hands; permissible assertion of patent misuse by an infringer who suggested the infringing clause, which was the situation in Judge Posner's recent case; patent expiration before purge or, worse, before the patent owner even recognizes that the purge is necessary, et cetera -- are so draconian that, despite Morton Salt, patent misuse should be limited to use of the patent to violate the antitrust laws.

The Supreme Court back in 1918 said that if a patent is "worth the price, whether of dollars or conditions, the world will seek it." Why, therefore, can a patentee not demand consideration from its licensees broader than the scope of his right to exclude, if the licensee is willing to exceed to the patentee's demand, and the patentee judges that the terms will not violate the antitrust laws? In my view, that is where the battle should be fought.

Set out in the end notes are several, I think there are 11, licensing demands which might be considered patent misuse. Assuming they would not violate the antitrust laws, are they practices which should be permissible? If permissible, they will likely be utilized. Will innovation be furthered or suppressed, if they are? I leave the questions raised by these demands for each of you to ponder.

In the series of patent misuse cases referred to above, the Federal Circuit has said that patent misuse can only rest on a restraint of competition determined under the rule of reason in an appropriately defined relevant market. Since the rule of reason typically requires a finding of substantial market power, I construe these cases as abolishing extension of the monopoly misuse and limiting the doctrine to use of a

patent to violate the antitrust laws.

It is for that reason that I suggested that patent misuse, at least of the extension of the monopoly type, may have become an anachronism. The Federal Circuit cases suggest that the larger question is not what license terms should be considered patent misuse, but whether there should be a patent misuse doctrine at all.

The Supreme Court did not require the Terminal Railway Association to allow traffic to pass without charge over its bridge after it violated the antitrust laws. I might add that Northern Pacific was not required to let people drive their trains down its tracks free of charge after it had found to violate the antitrust laws.

The Supreme Court in Terminal Railway Association said instead that "one of the fundamental purposes of the statute, 15 U.S.C., section 2, is to protect, not destroy, the rights of property."

The Supreme Court has never approved forfeiture, dedication, or royalty-free licensing in a government antitrust decree. A patent is granted as of right, once a novel and useful invention is disclosed and enabled. If a court takes away the patent owner's rights to enforce the patent, the patentee nevertheless has no way

to retract his disclosure. Neither the antitrust laws nor the patent laws expressly permit forfeiture of a patent because of the antitrust violation. Title 35 only states what cannot be found misuse, not what is misuse.

So, courts that created this judge-made doctrine can surely uncreate it. Why should a private party be entitled to relief not available to the government if it proves an antitrust violation? On the other hand, the statement in Morton Salt that the "public policy which includes invention within the granted monopoly excludes from it all that is not embraced in the invention" has considerable staying power, allowing licensing stratagems which expand the patent owner's right to exclude beyond its proper scope, whether in terms of substantive coverage, duration, geographic coverage, or level of distribution could be thought to distort what is a carefully balanced patent system.

On balance, I would support continuation of the doctrine if properly limited, but the issue is close, and others may reasonably differ.

Before closing, I would like to address one more point. Does activity within 35 U.S.C., section 271(d)(4) and (5) enjoy protection from a finding of antitrust violation? In a law review article reviewing

the legislative history of 271(d), which consisted of hearings in 1948, 1949 and 1951, I conclude that it clearly does. That article is entitled, "Is Activity within the Subsections of 35 U.S.C. Section 271(d) Protected from a Finding of Antitrust Violation," that appeared in the April 1992 issue of the Journal of the Patent & Trademark Office Society.

Unless "illegal extension of the patent right" in 271(d) means no more than misuse as also used in 271(d), which would make it redundant, not a favored tenant of statutory construction, the text of 271(d) also requires that conclusion.

Since the late Judge Giles Rich was the architect of 271(d), and the dominant player in the hearings, I took the liberty of writing to ask whether he thought I had reached a sound conclusion. His response was that "you seem to have correctly interpreted the hearings on the contributory revision bills." My article is attached as appendix C to the statement, my letter to Judge Rich as appendix C-1, and his response as appendix C-2.

I shall, of course, be pleased to answer any questions during the roundtable portion of these hearings, and I thank you all very much.

MS. GREENE: Thank you very much for that

presentation. Excellent presentation, and I just want to add, as a housekeeping note, that we have a few extra copies of your presentation that are on the back table that you were kind enough to bring. More importantly, we're going to have everybody's presentations in total up on the web very shortly. We'll have their slide presentations up, any articles that they submit, the papers to which Roxanne referred, all of those things will begin being posted today after the hearings, and as they come in to us.

Are there any responses either to Bob's interpretation of patent misuse and its evolution? I also want to put back on the table, because I would like to continue the discussion that we had before the presentation about jurisdiction, the issue of the FTC's administrative actions being appealed.

Charlie said that question can "abide" for a while, I think was your word.

MR. BAKER: Gordon seems to have studied it more than I have.

MS. GREENE: I know, so I am curious for both of your impressions, and also to bring in Bob's presentation.

MR. GORDON: Well, I guess --

MS. GREENE: What are your preliminary thoughts?

How is that for putting you on the spot?

MR. GORDON: 15 U.S.C. 45(c), which is the statutory provision that provides for appeals of FTC orders, speaks in terms really of geography. This isn't surprising, because it was written before the Federal Circuit was created. Many have argued that if you look at the text of that, for that reason, FTC orders ought not to be properly appealed to the Federal Circuit.

I have heard it argued -- without adopting the argument, or disavowing the argument at the moment -- that one should look at the geographic coverage of the Federal Circuit to be nation-wide. Therefore, in terms of applying 45(c), and looking to where the allegedly offending practice had an effect, or where the business, or where the respondent does business, one should consider the Federal Circuit to encompass the entire United States.

So, that's the argument I have heard, although I have also heard very strong arguments to the contrary. Forty-five U.S.C. was meant and intended to allow for appeals of the commission or as to the appropriate regional circuits, and not to the Federal Circuit, and 45 U.S.C. -- 45(c), rather, was not amended on the creation of the Federal Circuit, and so therefore shouldn't be read to allow for jurisdiction in the

Federal Circuit.

MR. HOERNER: I might raise one question about my own presentation. In 35 U.S.C., section 271(d), includes as one of the things that you can do and not be accused -- not be found guilty of misuse or illegal extension of the patent right, (4), refuse to license or use any of the rights of the patent.

I would be interested to know what the feelings of the group are on whether that means simply a naked refusal to license, period, or whether it can include a refusal to license on conditions: I refuse to license you unless you agree to fix prices with me. I refuse to license you unless you agree not to send your licensed product to Brazil, where I have no patents. I refuse to permit license unless you pay me royalties for 30 years.

If it means more than just a flat refusal to license, it seems that it would swallow up all of misuse law and a large part of antitrust law. I wonder if any of you have thought of that question and have a view on it.

MS. GREENE: I know, Bob, your tent is already up, so why don't you either respond to that or make your prior --

MR. TAYLOR: It's difficult to respond to that, because it is one of those many open questions that one

finds in trying to apply section 271 to the real world.

I actually wanted to put a question to Bob. You mentioned that the misuse cases have really sort of come to an end largely as a practical matter. Perhaps one of the explanations for it, and I would like your views on this, is that in 1988, when Congress inserted (d)(4) and (d)(5) into title 271, and implemented a market power screen, which was more or less contemporaneous with the evolution of market power screens generally in antitrust law, typical being the Northwest Stationers case, didn't that as a practical matter really spell the end of most of the conduct that made its way into the judicial system as a misuse claim?

MR. HOERNER: Well, I would say it certainly did as to subsection 5, which dealt with tying and has the market power screen in it. There is no market power screen in 4, which I just adverted to, and almost all of the misuse cases don't address the question of market power or relevant market at all. That's one of the criticisms, or objections to the misuse doctrine, that it sort of hangs there in the area without being tied to the reality of the case, and doesn't require market power.

In Morton Salt, there was no suggestion that Morton Salt had market power in the machines for canning

vegetables that dropped salt tablets in them. You just don't know. I don't know. I think most of the cases don't address that question. So, I would not say that it did.

I would say this: There is a case out in California where a federal judge said that, well, we don't think that these 4 and 5 apply here because the Congress originally tried to say, in general, that a patent doesn't convey market power, and it refused to pass that. But the issue there is what did 271(d), which was passed in 1952, mean as to whether it covered antitrust violations as well as misuse? I think it's very clear you have to look at the opening language of 271(d) to determine whether all of the subsections give you protection against a finding of an antitrust violation and not just a finding of misuse.

MS. GREENE: Jim?

MR. KOBAK: I just have a couple of comments. First of all, if you really want to get to the origins of misuse, there's this long dissenting opinion by the first Justice White in Henry v. A. B. Dick back in 1917. I am very proud of myself because I just went back and read it and looked it up and so forth. It is very interesting, and it does develop, and there was kind of an alternate strain to explain the misuse doctrine,

which really has nothing to do with antitrust. But it was based on the theory that a patent gives you very limited claims -- you go in and somebody makes an examination, and then if you come along and insist on license terms that go along with maybe including things that they had to give up in the examination process, it's kind of a distortion of the system to allow that.

That's really something that's not antitrust-based, and I don't think one should completely lose sight of that background, whether or not one agrees with it or not.

On the 271(d) question, particularly the last question about whether refusal to license would also embrace all kinds of restrictions on that right, I think that it's pretty clear, as I recall the legislative history, that there was a whole laundry list of restrictions that were part of the bill that were supposed to all be -- were all going to be said not to be misuse or not to be misuse without a showing of market power. They all got dropped out of the bill except tying. So, that to me means that the only kind of restriction Congress really meant to exempt was tying.

The final point that I would make is that I think we would all agree that rightly or wrongly misuse

has largely dried up in the patent context, but one place where it's really booming, so to speak, is in copyright litigation. There are a lot of cases now that are starting to say if you're using this in an anticompetitive way or in a way that seems to be contrary to the goal of stimulating new expression, even though we can't find something is in the antitrust situation because it's not market power, it can be a copyright misuse.

So, in some ways I would think if you wanted to focus on anything, it might actually be more interesting as the patent doctrine development is, the place where it might actually have more future significance is probably its use in the copyright context where the courts are just now starting to grapple with it. Some of them are, I think, taking a very, very broad view of how the misuse doctrine should be applied.

MS. MICHEL: To get off that track just for a second and then come back to it and back to the question of Federal Circuit jurisdiction over decisions of the FTC. Does anyone have any suggestion of where in the Federal Circuit's jurisdictional statute you might find support for Federal Circuit jurisdiction over FTC decisions?

(No response.)

MS. MICHEL: No takers, okay.

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

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

MR. HOERNER: I would think so.

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

MS. GREENE: Any thoughts?

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

decision, but ALJ decision following the VISX/Summit case? I don't remember exactly the situation, but were there any lobbying efforts on this issue, specifically?

(No response.)

MS. GREENE: Okay. Howard, would you like to say something?

MR. MORSE: No. I'm not a participant. I'm in the audience today.

MS. GREENE: I know, but you're close enough to the group.

One of the points that George brought up in his presentation was "arising under" jurisdiction, and he talked about the second prong of the Christianson test over right to relief must depend on the resolution of a substantial question of patent law. I'm curious if anybody has any interesting hypotheticals or examples where answering that question would be more challenging or where the answer would be less clear?

MR. GORDON: Well, I think one example is brought up by the cases involving allegedly unlawful patent settlements. One of the issues that's been litigated in those cases is the question of: Whether or not, to prevail, the plaintiff must show that the alleged infringer could have entered earlier but for the settlement, and in doing so, must prove that the alleged

infringer would have prevailed at trial. This obviously would raise questions of the validity of infringement, enforceability, et cetera.

This has actually been litigated and has come up in the context of cases that have been filed in the Cipro litigation in state court, and then the defendants had it removed the Federal Court on the theory that the plaintiff's right to relief requires resolution of the patent claims for the reasons I had mentioned earlier. Most of the courts concerned and most of the Federal Courts concerned have sent the cases back to state court. However at least one court has, because of the way the case was pled in the Cooney v. Barr Labs case, accepted Federal Court jurisdiction over the claim.

So, I think in terms of the cases that are out there, now that I'm aware of, anyway, that those are really the cases that present, I think, the most interesting question that are kind of in a gray area with respect to jurisdiction. As opposed to the sham litigation and Walker Process claims, in which I think the question is a little easier.

MS. GREENE: Matt?

MR. WEIL: I litigated a case that settled before it got to trial, an attorney malpractice case, in which the case would have turned on very interesting

questions of patent law, and we could not figure out a way on God's green Earth to get it in front of the Federal Circuit. At that time, at least, there was no precedent that we could point to that would have -- even though we were in the district court on diversity, would have gotten us there.

So, I think there are other cases where the rubric is either state law or jurisdiction completely alien to the patent law, but that patent law is really embedded in it. Those cases don't seem to make their way to the Federal Circuit.

MS. GREENE: Cecil?

MR. QUILLEN: From my prior life, it was not at all unusual for a breach of a patent license lawsuit to be brought in state court, and for the defense to be that the patents you were seeking to enforce are invalid. So, if you were not in a position to remove, you were parked in state court and the state court the case was tried in and was going to have to resolve issues of validity and infringement.

So, patent issues have been in a lot of different courts through the years.

MR. TAYLOR: Which actually prompts a question that I would have for George, why would you treat the settlement situation any differently than the patent

license cases that Cecil was talking about? It's basically the same issue. You have to resolve questions of patent validity and patent infringement regularly in connection with contract disputes over licenses, and those are never federal questions, and then the Federal Circuit has actually declined jurisdiction in some of those cases.

MR. GORDON: Well, that is true. I think there's actually some fairly recent case law where the Federal Circuit has suggested that actually it may have jurisdiction over breach of license agreement cases. In the U.S. Valves -- I think is the name of the company, it's cited in the task force report -- where the case was transferred to the Federal Circuit by the regional circuit, and although the Federal Circuit was bound under Christianson to accept that transfer, it did mention in passing that it thought that it actually should have jurisdiction over the case. So, I think the Federal Circuit is maybe evolving on the question of breach of license agreements.

The theory on the settlement agreement cases, the theory that the courts have grabbed onto that have sent the cases back to state court is basically that there is, at least in theory, an alternative basis for relief in those cases without resolving the patent

infringement issues: The plaintiffs can show that, perhaps, the parties could have -- the infringer could have entered earlier because the parties would have entered into some less restrictive licensing arrangement or, perhaps, the alleged infringer would have entered even with the pendency of the infringement litigation.

So, there would have been earlier entry, even if the infringer hadn't won the infringement litigation. So, they found other ways around the issue, which might not be applicable to the license agreement, or in license agreement cases.

MS. MICHEL: A lot of the commentary we received recently about Federal Circuit jurisdiction in the antitrust area made statements along the lines of the expanding jurisdiction and expansion of Federal Circuit jurisdiction. I'm hoping that we can impact that statement a little bit and get a handle on what we mean.

Is there a sense out there that the jurisdictional analysis has changed somewhat? Or is what's going on is we're seeing just more and different kinds of cases and wrestling with them and realizing that the statute sends more cases to the Federal Circuit than maybe it did or did not contemplate?

MR. KOBAK: I'll take a stab. I think in the Nobelpharma case, the Federal Circuit had this Walker

Process sham litigation question, and at that time it was looking to regional circuit law. It had to look for Ninth Circuit law on what fraud was and it ended up saying: Gee, the Ninth Circuit has this rule that an omission isn't fraud, but an affirmative statement is, which didn't seem to make a lot of sense, given the policies and the facts involved.

So, when it took the case en banc and applied its own choice of law, it didn't have to follow that distinction and probably made a more sensible decision. I kind of think that around that time it began to see similar issues, for instance in the state law context, where again there would be questions of if this guy is making a statement that's actionable, it has to be because he's saying the patent's enforceable and it's not enforceable or infringed when it's not infringed, and there's no way that anybody can decide that unless they apply patent law.

So, therefore, there's a whole world of cases that we ought to be getting. I think from that, they've even gone on and found procedural issues that are related with those substantive issues, so they've sometimes applied their law to those as well.

So, I think there has been an expansion. I think a lot of it has been dictated by questions of

patent law that maybe, originally, you wouldn't perceive as necessarily being implicated in these cases, but over time you realize that it is. On real patent-related questions, it maybe makes more sense for the Federal Circuit to apply its law rather than having to look at a circuit where there's no law on point or it's very sparse or it doesn't really seem to answer the question. So, I think that's how it evolved, and that's my personal view.

MS. DREYFUSS: Was your question about choice or really about jurisdiction?

MS. MICHEL: The statements you read tend to be more about jurisdiction, but I think Jim raises an excellent point that when people make those statements, they may be also thinking about choice of law.

MS. DREYFUSS: My question is whether they're intertwined. I mean given that the Federal Circuit now does do choice of law more, are people sort of shopping for the Federal Circuit? I think that's sort of one of the worrisome questions is whether knowing that the Federal Circuit will apply its own law rather than regional law are people actively trying to frame their cases so that they get to the Federal Circuit and is that why we're seeing more an expansion of the jurisdiction.

MS. GREENE: George? Excellent question.

MR. GORDON: Jim, if you have a specific response.

MR. KOBAK: I suspect that's the case, but I can't prove it.

MS. DREYFUSS: It's implicit in what you said, but I just wanted to make sure I understood it.

MR. GORDON: With respect to the question of whether the jurisdiction's been expanding. My sense is that it's not expanding in the sense that the court is changing its law on jurisdiction, with the single exception of I think of the jurisdiction over breach of contract cases in which there may be a change. As Bob mentioned, there was plenty of case law in the past where the court has suggested that it does not have jurisdiction over those cases, and that may be changing. But I think what might be meant by standing is it's simply expanding in the sense that new situations are arising in which the court is asserting jurisdiction so that boundaries are expanding, although not necessarily because the court's changing its previous precedent.

MR. TAYLOR: I think largely I agree with what Jim just said, but there's an additional wrinkle here. The Federal Circuit did, some long time ago, for a period of years ago, start taking these counterclaim

cases where the counterclaim was set under section 1338 in the district court, and that has ended with Vornado.

So, at least some of the concerns that I've seen written and expressed about expanded jurisdiction may go by the boards with the Vornado ruling, but in addition the Federal Circuit. The jurisdiction of the court itself has really not been changed, and the Federal Circuit has been the primary court in defining its own jurisdiction. But fortunately, the regional circuits have recognized that it doesn't make a lot of sense to have 12 different courts trying to articulate rules for establishing the jurisdiction of what is the Federal Circuit. But I think their jurisdiction is fairly stable.

MS. GREENE: Thank you. Are there any last comments? We have a minute or two left before we break for lunch, and in particular if anybody has additional comments on the Holmes case. We've heard various perspectives on it, including practical questions of what will be the ultimate impact of the case in terms of sheer numbers? We've had folks raise the question of you have had circuits in which there has been a sort of paucity of certain issues because they've gone to the Federal Circuit, are they now going to go back out to the regional circuits? How will those circuits deal

with the issues?

Bob?

MR. HOERNER: I would comment only that I think the case raises Justice Scalia's well-recognized tendency to look at the words used and not try to worry about anything else, what the purpose of the Federal Circuit is, and he said arising under means arising under and we have to scrutinize arising under and, by God, arising under means arising under. And that was the end of it. I think that illustrates better than any case that I know of this tendency of Justice Scalia to look at the words and take the words at face value.

MS. GREENE: I don't know, maybe that will result in a revisiting of the legislation. In any event, thank you all very much. We are now out of time and starting again at 2:00 p.m. promptly, at which time we will be joined by Judge Ellis, who will be opening up the session by giving us some remarks. Thank you all very much, see you at 2:00.

(Whereupon, at 12:30 p.m., a lunch recess was taken.)

AFTERNOON SESSION

(2:00 p.m.)

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

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

It is a remarkable achievement in the eyes of our students and certainly in the eyes of the practicing community to be able to say that you are an Ellis clerk. From the beginning of my time in teaching, which coincided roughly with his ascent to the federal bench

15 years ago to the present, I've been struck in talking to students and practitioners in the area to get a sense that his is truly a special presence in the Federal Courts.

Among his other achievements, in addition to his routine work on the court, he has become one of the most influential and thoughtful scholars dealing with the operation of the patent system and its administration. He has published extensively in the field, indeed in a way that makes those of us who are academics full-time a bit ashamed of lack of productivity. Indeed, not only has he done a great deal of work in the area, he has been called upon in a great number of instances to testify on issues in association with the intellectual property issue, among recent examples his testimony to the National Academies Conference on the operation of the patent system in which he examined the administration of the patent system and the operation of the Federal Circuit.

It's obvious from these reasons why we are so delighted to have him here today to share his thoughts with us. Simply a bit of further background, before coming to the bench, he was a partner at Hunton & Williams, and had served in the U.S. Navy as a Naval aviator, and dealing with these issues is certainly like

landing an airplane on an aircraft carrier at night, we haven't quite brought it onto the deck, but we hope to do so in one full piece for our future take-off as well.

Judge Ellis earned a bachelor's degree in engineering at Princeton University, as you know, certainly not for this audience, we have many who have concurred this, but for those of us who spent most of their life running away from mathematics and the sciences, those of us who are lawyers are greatly impressed with Judge Ellis and others who have concurred that apprehension.

You are aware that there is a modern thriller now in the movies about how lawyers threatened with mathematics and other elements of the sciences are driven to dismay, the title of the thriller is: The Fear of All Sums. For those of us who have been frightened of the technical skills again, greatly impressed with those who have mastered both of the disciplines.

Judge Ellis also received his law degree from Harvard and a diploma of law from Magdalen College at Oxford University. So, once again, we're enormously grateful to Judge Ellis for sharing his thoughts with us today. Thank you.

(Applause.)

JUDGE ELLIS: Thank you. I thank the General Counsel for such an extravagant introduction. I'll say just two things about it. One is that in terms of flying off aircraft carriers at night, our flights were usually anywhere from an hour to three hours, depending on in-flight refueling, so we describe those experiences in terms that I hope you won't find apt to what I am doing today, long periods of boredom interspersed with moments of stark terror. I hope there won't be any moments of stark terror, but I can't promise you there won't be boredom.

And while I was extravagantly described as a scholar of the system, I'm not. I wish I were and I will continue to try to be; but the real scholars are the folks that you've already had testify and will have testifying.

I was reluctant to come today, because I was unsure that I had much of significance to add. I continue to be unsure of it, but I'm going to plow ahead anyway and I hope that, at least, what I say might provoke some questions. The major thesis that I have to advance today is quite straightforward, and it's hardly revolutionary, and I would suspect that most veteran observers of the patent scene have come away with the same impression.

It is simply put that the escalating, skyrocketing patent litigation costs, beginning in the '70s and '80s and then into the '90s and continuing today, have distorted the patent markets. In essence, it's my observation that -- and it's an observation that I hope one day a real scholar will undertake to verify empirically -- but it's my observation that escalating costs associated with patent litigation of infringement and validity issues discourage challenges to patents, thereby equating the entry barriers for presumptively valid but weak patents with the entry barriers typically associated with strong or judicially tested patents.

Let me put some flesh on the bones of that. In essence, strong patents, of course, are a category that I label as referring to those patents that have already successfully passed judicial muster or, because of their intrinsic strength, are clearly valid. Using entry barriers, the height of them as a metaphor -- generally the height of an entry barrier may be said -- to be equal to a royalty rate responsive to a number of market factors, including, for example, the cost of product or technology that competes with the patented product or technology that is outside the scope of the patent.

One factor that isn't part of the analysis, or part of the entry barrier equation for so-called strong

or judicially tested patents is uncertainty over the patent's validity. Of course, this factor does play an important role in the height of entry barriers for patents that are only presumptively valid and haven't run the litigation gauntlet or aren't inherently strong because they're pioneer patents or the like.

So, these high litigation costs, as I see it, deter potential competitors from entering the market and challenging the patent. And if they're high enough, in a particular interest, that is litigation costs are high enough in a particular interest -- instance, then the entry barriers associated with these untested and only presumptively valid patents may be raised at least to the level of those associated with the category of strong patents.

It is fair, I think, to ask whether this is bad, and it's almost a rhetorical question. The answer is fairly clearly yes. Inherent in our patent system is that some patents will be improvidently granted. That's why we have a system for testing patents in litigation. I'm not sure we ever contemplated how many would get through. Particularly protected by what I'm going to come back to in a few moments, the presumption of validity by statute, followed by the judicially created clear and convincing test.

In any event, the patent office's filter, I think, for filtering out weak or unworthy patents seems to me, and this is just an intuitive observation, it's not a quantitative or a qualitative observation, and it's something that needs to be empirically investigated, but it seems to me that this filter is becoming more porous, and there are some studies which suggest that may be so.

Exacerbating the situation is what I think some scholars would argue is the trivialization of the unobviousness requirement, and the increasing significance, for example, of the external factors to support unobviousness, such as commercial success and so forth.

There is some good bit of scholarly work on this, I think Professor Lemley has done some excellent empirical work, Professor Thomas is beginning some, and I think Professor Merges once did some as well. But in any event, the bottom line is that it's too common to dispute that a frequent scenario is a potential competitor faced with an infringement suit and having a fairly good position on validity, and indeed maybe even infringement, but the costs of litigation are such that the punitive infringer is unwilling to undertake that expense, and then the result is the risk that invalid

patents will pollute the market.

Now, whether that's, in fact, occurring or not, I say is an empirical question. I believe that it is, and if it is, that's a pernicious effect of the high cost of patent litigation. Because the patent system, it seems to me, contemplates not only that litigation will eliminate improvidently issued patents, but also that competitors would not be artificially discouraged from marketing a product or using a process that is as close to the border to the patent scope as technology and law permit. High litigation costs are just such an artificial disincentive, I think, and such costs have the essential effect of improperly expanding a patent's boundaries.

Now, as I said, these are my intuitive views, based on some years of experience in patent cases, but it really is something that needs to be empirically investigated. I'm not even sure how it would be done, but I think that people like Professor Lemley and Thomas and others who are now getting into more and more empirical work will -- are worthy, certainly, of attempting this difficult problem.

But assuming for a moment that I'm correct, it's worth asking what we can do about it. In a small way, the Eastern District of Virginia helps, I think, by

using an expedited docket, for all cases, patent cases are no exception. Everything goes from birth to death in six to seven months, regardless of nature or dimension. There may even be, as I look around here, and see the various substantial degree of experienced lawyers, I think we have the means of the bar here and I would expect that some of you have had the experience of a patent case in the Eastern District of Virginia, and it does end relatively quickly.

That means that the costs won't be great, as great as they might otherwise be. Because as we all know, if you take identical case and you try it in six months, and try it in two years, it will cost you much, much more to litigate the one that's tried in two years than the twin that's tried in six to eight months. Work expands to fill time allotted, and lawyers bill on the basis of hours devoted to the case. You don't need to empirically verify that, I would be willing to bet large sums of money on that. Indeed I've verified it empirically, because I was a trial lawyer, and I did it.

So, I think expedited dockets are a good thing. The big expense in docket litigation is discovery. I liken discovery, generally, and certainly in many patent cases, to a black hole. It is something into which endless resources can be thrown and it gives off no

light. You get very little bang for your buck in discovery.

I think one of the extreme cases was a case in which I participated in the mid-'70s, a patent antitrust case. We took the deposition of several executives of one of the major companies, which happened to be a European company, and as it happened, these particular executives just happened to be on the French Riviera. So, we were there for nine weeks deposing these three individuals. I think you can draw your own conclusions, but I certainly thought it was a good idea then. On reflection, perhaps not, but in any event, discovery is one of the major problems in all litigation, not just patent litigation.

Another problem that has been, I think, lessened a good bit is the presence of juries. Markman, of course, was a watershed event in patent litigation. Prior to Markman, of course, most patent cases could be summarily described as the inventor and a couple of experts and some other people testifying about their opinion as to what the patent covered and whether or not it was unobvious, and the two experts generally would square off.

Judges never had, even though they -- judges typically were heard to say they disliked patent cases,

they never really had to engage the technology, because all they had to do is put on competing experts. So it was a very different environment before Markman. After Markman, where judges, of course, must engage the technology, and judges themselves must decide the boundaries of the claims, the meaning of the claim and therefore the boundaries of what the monopoly is granted for, that takes some uncertainty out of it, and that's reduced some patent litigation costs, and it's taken an issue away from the jury that I think was appropriate to do.

Markman has had an enormous effect on patent litigation, and that's another fact that could be empirically studied with some profit. But I'm about as big a fan of juries as you will find. I always preferred a jury trial. It was not even permitted in my old firm to ever give up a jury. That was considered heresy. You never waived a jury.

I remember one of the exceptions to that was an occasional patent case, but juries were sparingly used in the '70s. Not that frequently in patent cases. In the '60s, when I first saw patent cases, they were rarely, if ever, used. Fewer than 10 percent of all patent cases, I'm sure the figures are in Schwartz's book, and I believe there are roughly fewer than ten or

less than 10 percent of the patent cases were tried to a jury in the '60s or '70s, and at some point in the '70s it grew and in the '80s it grew, and at this point I would be willing to say that it's between 85 and 95 percent are to a jury.

Now, I'm satisfied that juries do a wonderful job in all cases, including patent cases. But there is a category of patent cases that is I think beyond what juries want to engage, typical juries.

As an example, I had a case some years ago, I don't know whether any of the lawyers who are here were in it, but it was a case involving two very large companies involving 24 patents for transistor circuitry. The thought that I would have a jury for two weeks or three weeks, we don't have cases that last longer than that, but that's a pretty long case in the Eastern District, but nobody could pay attention. No average juror would pay attention to transistor circuitry testimony for two or three weeks.

And so there is a category of patent cases that really aren't suitable for juries. The biggest problem with a jury in my view is not that this little category of cases. For most cases, juries do it and do it very well. The biggest problem you have is, of course, the globalization. It's hard to harmonize our system with

other systems in the face of a jury. The jury really adds a factor that is a real problem for lots of other countries when they are trying to -- I mean it's easy to change things like first to file or first to invent, those sorts of things aren't difficult, and they're not world class issues. It can be done.

The jury would be a difficult issue, but it could be done pretty easily, by simply withdrawing jurisdiction for patent cases from Federal Courts and do it all administratively. That could be done. It's done that way in other countries. I'm not suggesting that I'm in favor of something like that, but I am suggesting that what I see in the future is a real issue arising about what is to be done with a jury in the American system so that it can be harmonized to systems as our patent system becomes global.

There is one other issue that I want to raise that distorts patent markets, and it, too, arises because of the costs of litigation. That is settlements, and the risk that settlements may violate the antitrust laws. This is an issue that also needs empirical investigation and empirical study.

It is frequently the case in patent litigation -- let me strike frequently, because that assumes I've done the empirical work. It's my

experience in many patent cases that there will be a strong argument, one side thinks, on validity. Yet they will ultimately settle and take a license. Sometimes such an agreement would violate the antitrust laws, because if you agree with somebody to exploit a patent that you have every reason to believe is invalid, I mean, we could hypothesize all sorts of situations. You do have an antitrust situation. I always caution lawyers settling cases that they need to look at that, and then I always make clear, you also need to think carefully about whether you show the court the settlement. That's not required. Parties can settle cases on any basis they want to and merely ask the court to dismiss the matter as settled, agreed, with prejudice, and it's gone.

So, I point out the hazards, talk to them about it, and then say, there may be some reasons why and some circumstances it might be worth your having the court participate in some way, and my experience is that that has never occurred. They don't want the court to see the agreement. This is because many of these are probably close questions.

Indeed, the case that I told you about that involved the depositions on the French Riviera was a case that resulted from a settlement agreement growing

out of patent litigation and a worldwide agreement on using each other's patents. That agreement was ginned up by two of the finest law firms in the country, and then it gave rise to a litigation that lasted for a while. So that's an example of settlements that can violate the antitrust laws and thereby disrupt or distort patent markets.

Now, finally, I want to raise another issue on this distortion of patent markets, and that is the presumption of validity, which as you all know is statutory. And it's judicial manifestation is the clear and convincing burden. For good or ill, what has evolved in patent litigation is a standard technique used by patentees when they try patent cases to take advantage of this. They will have the Patent & Trademark Office prepare a nice blue ribbon to tie around the certified copy of the patent and they will ask for an instruction, not just on clear and convincing, but they typically ask for an instruction that there's a presumption of validity. I have some doubts about whether such an instruction is appropriate, other than just clear and convincing. But, in any event, it's frequently done. It happens all the time. If you'll read Federal Circuit cases, there's not a peep about that sort of thing.

There is, in my view, some in coherence in the presumption of validity clear and convincing scheme. Let me see if I can describe it to you. There are some of you here that know more about this than I, and perhaps you can put some flesh on these bones. But as I understand it, in a prior art rejection in the Patent Office, examiners identify and disclose to the applicant the legal reasoning that a claim's subject matter fails to satisfy either the novelty or the nonobviousness requirements.

This is a so-called case of prima facie unpatentability, and it results in an allocation of proof burdens in the prosecution process. If you look at the Piasecki case at 745 F.2d 1468, that's described there. Essentially it means that the Patent & Trademark Office has the burden of coming forward with proof establishing that the subject matters anticipated are obvious; and if it does, then the production burden shifts to the applicant to rebut the prima facie case. And when the applicant does so, the patentability of the claimed invention is determined on the basis of the entire record by a preponderance of the evidence. I think the MPEP will say so.

So, isn't it odd that you can go through a process like that, the patent examiner then lets it go

by a preponderance of the evidence, and it arrives at court with a blue ribbon, a statutory presumption, and a clear and convincing burden on the other side. In addition, into the calculus or into this equation, throw this fact in: Professor Lemley went out and tried to ascertain how much time examiners really spend on these matters. I've forgotten which area of technology he looked at, and I've forgotten the precise quantitative result, but it was something on the order of -- in a particular area that he studied -- you were talking about six to eight hours of average time for an examiner on an application.

And at the end of that, presumably if there's some dispute, then as I said, it could be done on the basis of a preponderance of the evidence. There's a case at 977 F.2d 1445, that I think helps to illustrate that.

Well, those briefly are the remarks I have. Essentially, patent litigation expenses, I think, are a serious disruptive factor in the entry barriers that operate in connection with certain kinds of patents. That is they discourage challenge of those patents, whereas the system contemplates that those patents will be challenged and found out there rather than at the examination in the PTO. And it isn't happening, because

of patent litigation expenses, and it isn't happening because of things like the clear and convincing burden that flows from the process.

I would be delighted to answer any questions. I hope that if there are any scholars present that I have encouraged real scholars, not people like me who just look and make observations, but real scholars who roll up their sleeves and look at it empirically and analytically and come up with thoughtful statements of it, I hope that I have encouraged you to look at some of these issues, and perhaps write us about it. I would be delighted to see that and to be told that I was wrong. Because even if I am wrong, I'm sure that such studies will discover lots of other interesting things that we should know.

Thank you.

(Applause.)

MS. GREENE: Unfortunately Judge Ellis will not be able to join us for the afternoon, but let's just take a moment to have any questions for him. He has graciously agreed to answer.

Yes, Steve, who is Deputy Commissioner at the PTO.

MR. KUNIN: I do have one question for the judge, but I would also like to maybe clarify the record

in terms of the statistical information. For all technologies, the average examiner has about 20 hours for a case, for the most complex cases, it can be something like 35 hours. The six to eight hours I can only equate to the amount of search time that examiners have in probably the more complex areas, but for the entire examination period, the amount of time is much more substantial.

My question that I have for the judge is I found it quite intriguing from the perspective of your observation that in the international perspective, one way of getting around an issue dealing with the American system of using jury trials might be to establish some kind of administrative proceeding which would include, I presume, at least most importantly the question of validity as well as potentially enforceability. One thing that we've been contemplating introducing into Congress is a form of a post-grant review system of an inter-partes nature, basically on any condition of patentability, which could be introduced roughly nine months after a patent issues or within four months after an individual would be accused of infringement or threatened by infringement.

My question is, with respect to establishing that kind of inter-partes post-grant review proceeding,

do you believe that that might be beneficial in sorting out the aspect of strengthening patents through some administrative mechanism before they get into court proceeding?

JUDGE ELLIS: In general, I would think that anything you can do to ensure that what makes it through is valid would be helpful. Because once it's through, then you're in litigation. So, I know that Professor Thomas has advocated recently in the Berkeley Technology Journal that there be some participation by -- that it not be ex parte anymore. That it not just proceed with the applicant, in other words. At some stage.

And I think all of those things are worth exploring. As far as withdrawing the jurisdiction and having -- I think validity is clearly the one, infringement can still be done in court, but you could do validity, as they do in other countries, Japan, and I think Germany, you could do validity administratively, and then you could do infringement judicially or in litigation. That might work, although I've never seen an agency yet move as quickly as some courts, and so you might have a problem there. And I think there would be a lot of opposition.

As far as the figures, I'm glad to have that correction, but I do think that -- I know you all have

reviewed Professor Lemley's work, and it was six to eight hours, I just don't remember which area. So, it's been out for some time, I don't recall whether it's in the Texas Law Review or one of the others, but he did come up with a time for a category that made some -- I mean it wasn't a category of mechanical -- simple mechanical devices, I don't think, but I could be wrong about that. But in any event, even 35 hours for something fairly complex is probably not enough, particularly in the areas that we're coming to now.

You know, as I see it, and again, I've never been a patent examiner, I haven't even had a tour of all of your spaces. I have talked to a lot of patent examiners, who took classes with Professor Thomas, and I appeared at the classes, and I chat with them. And as I discuss things with them, I'm struck by how much they rely on, (A), what the parties submit as prior art, and (B), their searches for prior art in the resources of the PTO.

A lot of prior art, in areas that we are now coming to deal with more and more often, isn't found in those locations. A lot of prior art isn't going to be prior patents, and it isn't going to be in the usual places. And so I think I would be interested, for example, if that issue were studied. That's also, I

think, an issue that empirically should be looked into as the extent to which validity issues are increasingly decided, not just on matters not brought to the attention, that's a routine matter in most litigations, is the punitive infringer is always bringing up prior art that wasn't cited to the Patent Office, and then goes for an instruction that it's entitled to less deference for that reason. But it would be interesting to know if these new areas of technology where the prior art takes a lot of different new forms, is being adequately brought to the attention of the Patent Office.

The final thing I wanted to answer or say is that I am heartened that the Federal Circuit has taken what I think is a new look at inequitable conduct before the Patent Office. There is a lot of dicta in Federal Circuit opinions about -- it's usually frivolously asserted and so on and so forth, and that's certainly true, but there are valid cases of inequitable conduct where people deliberately refrain from disclosing things they know about from the patent examiner. And the Federal Circuit, in my view, since it's affirmed me twice on summary judgments I've granted on that issue, I think has taken a -- and that's essential to our system. If we don't punish people for not being straight with

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

But did I answer your question? I think yes, administratively it could be done, it ought to be done prior to the issuance of the patent. You were thinking about after the issuance, weren't you? Re-examination, something of that sort? Well, that's already done, isn't it?

MR. KUNIN: May I?

MS. GREENE: Oh, absolutely.

MR. KUNIN: Just I guess some brief comments.

Under the American Inventor's Protection Act of 1999, there was established a new inter-party's re-examination system. That law, number one, coupled with the 18-month publication provision legislatively created a prohibition against establishing a pre-grant opposition or protest system in the United States after publication.

So, that's, in part, why at this point we've discussed only post-grant as opposed to pre-grant, since Congress spoke recently against pre-grant. The post-grant inter-partes in its existence has had only four takers, and there's been a substantial amount of criticism. Recently you will see that there's a bill making its way through Congress to actually improve the inter-partes re-exam, particularly to give the third

party a right of appeal to the courts, which is now not available.

Quickly a couple of other points. We do provide a very substantial amount of access to non-patent literature, particularly in the fields of emerging technology, and especially with the rise of the whole phenomenon of business method patents. There's been a very substantial amount of investment, not only in use of the Internet, but commercial database access as well, which I guess leads me to a follow-up question, if I could ask it of you, Judge, and that is whether you might favor, in principle, having some kind of a requirement on applicants to do a mandatory information disclosure statements to sort of, you know, do some of the balance, if you will, in terms of responsibility for getting the best art in front of the examiner.

JUDGE ELLIS: Yes, and I think that, too, was recently put forth. I've forgotten whether that was Professor Thomas or somebody else. I think that's a good idea, and in return for that, you get the presumption and you get the clear and convincing, and if you don't do that, then maybe all you get is preponderance.

So, I think there are lots of ways to do that. I think that's a good idea. I don't mean to say that

the Patent & Trademark Office is remiss in anything it did. I just think we live in a world of technology where it's unrealistic to expect that a patent examiner is going to be able to search resources and come up with all of the prior art. And so we need to find ways to supplement that.

MS. GREENE: Any further questions for the judge?

(No response.)

MS. GREENE: Well, thank you so much for your time. We're grateful that you were able to participate.

JUDGE ELLIS: Thank you.

MS. GREENE: And now we'll continue on now that you've highlighted a bunch of additional issues that we need to be considering, as if we didn't have enough. So, let's turn back to our scheduled presentations and turn to Jim Kobak.

MR. KOBAK: Thank you. And I appreciate the opportunity to be here today. I've already, I think, made a few of my views known during the morning comments, so I will try not to repeat myself too often.

I submitted a paper on my kind of preliminary thoughts about some of the things that were not okay might mean, and one of the things that I would like to discuss briefly today is that topic. I would also like

to very briefly express a few views on the antitrust jurisprudence of the Federal Circuit. Finally I would like to conclude with a few ideas about what a choice of law rule might be for antitrust cases, given the circumstances in which we find ourselves after Christianson and Vornado.

First of all, on the effect of Vornado, I think one of the consequences of the case will be that there will be occasional races to the court house, because whoever -- the complaint is going to determine jurisdiction, if there has to be a compulsory counterclaim to that complaint, it's going to go to whatever court house jurisdiction because of the complaint. And that means that there would be a premium on the antitrust plaintiffs who if they want to avoid the Federal Circuit trying to file their case first, because then everything would get appealed to the regional circuit.

It also cuts the other way, because you can also have a situation now where the regional circuits, as Justice Stevens noted in Vornado, will actually be deciding some patent issues when they arise in counterclaims that previously would have been handled exclusively by the federal jurisdiction.

Now, is this an important thing? I'm not sure I

know the answer to that. I'm not sure that I foresee that there will be a lot of additional races to the courthouse. I think we already have races to the courthouse for reasons having nothing to do with the jurisdiction of the Court of Appeals that will hear the case. Sometimes it's just convenience, sometimes one might want to go, or avoid a court that acts as promptly as Judge Ellis' court for tactical reasons. So, this isn't really a phenomenon that's going to be new to patent law.

I think, as we discussed a little bit this morning, there will be cases where even though something is pleaded as an antitrust case, there will be jurisdiction under the second prong of Christianson, if that there are issues that have to be resolved, necessarily have to be dealt with that are patent issues, and as long as those issues are in the case and there are no alternative theories, which wouldn't involve patent issues, the Federal Circuit will still have jurisdiction under the "arising under" test.

So, there will be some of those cases, and I think Nobelpharma and Walker Process cases are probably classic illustrations of them. There will probably be others where validity or scope of patent is definitely an issue as part of the antitrust claim.

I think you will see some change of the pleadings in some cases. I could certainly see if you wanted to get your antitrust case to your regional circuit, you might try to plead it in a certain way to avoid the second prong of Christianson. I think you probably would not now include a declaratory judgment of patent invalidity, which, you know, frequently was done before Vornado. Again, whether that will happen often, how significant it is, I'm not sure.

Another thing I think we'll see is increased importance of a compulsory counterclaim rule, rule 13(a) of the Federal Rules of Civil Procedure, because if something is a compulsory counterclaim, you're going to have to plead it. If it's not a compulsory counterclaim, you can plead it if you want, but you can also save it and plead it at a later date, and in that way, you won't necessarily subject yourself to federal circuit jurisdiction.

This is a very complicated question, because there is language, and the Mercoid case seems to be our favorite whipping boy today, that basically said patent law and antitrust law derived from separate sources are independent of one another. So an antitrust claim of any kind can never be a counterclaim to a patent infringement action.

Now, that doesn't seem to make a lot of sense, if you look at rule 13. Usually the way the courts deal with rule 13 is to say: Is there some factual overlap between what's alleged in the complaint and what's alleged in the counterclaim and is there a logical relationship between those two things?

So, the situation we have now, as far as I can figure out, is that some circuits still say: Well, we're bound by Mercoid, until that's reversed. Some circuits say: We should limit Mercoid to its facts, and the facts of Mercoid were a licensing agreement and price-fixing agreement and things like that, and not really an attack on the validity and the enforcement of the patent, per se. So, in the kind of case that Mercoid itself involved, we'll find the counterclaim permissive, but in other kinds of cases, it might be compulsory.

And then another difficult issue that you have in these cases, is even though the claim might be theoretically compulsory, there are apt to be arguments that at the time one is required to plead, the claim isn't right, if it involves enforcement of a patent or you don't know enough to be able to plead Walker Process fraud or something like that with particularity until there's been discovery in the patent cases.

So, there are a lot of issues. I think, again, it seems like an inevitable conclusion that the Federal Circuit would get counterclaims involving Walker Process issues and Nobelpharma issues, but I think they would get most of those cases under arising under jurisdiction anyway.

Now, let me turn for a minute to the antitrust -- and I know we spent a lot of time on this this morning. It's not going to be any secret to you. I think that basically the results that the court has reached in cases like Nobelpharma and Bard, as George pointed out this morning, are perfect examples, are probably not only mainstream antitrust jurisprudence, but are some of the few cases that you can find that have actually sustained liability at the appellate division on the bad faith enforcement theory or on a predatory design change theory.

On the other hand, as we've also discussed today, there is some sweeping very unnuanced dicta in some of those cases, and in the Xerox case and the Intergraph case, which seems to go beyond, at least what many of us would think would be a real balanced description, I guess you could say, of black letter law. And, you know, you can argue that that's dicta and you should not just rely on dicta in cases, you should look

at the actual holdings of the cases, but the fact of the matter is that people cite dicta in briefs, and sometimes lower courts do rely on it. So, I think it's a problem.

Another area that -- and I guess this will build on some of what Judge Ellis said. The Federal Circuit has placed a lot of emphasis and a lot of antitrust cases as well as other cases on the presumption of validity of the patent. It's also said that whenever you have a patent case, whether it's an antitrust case or a Lanham Act or a state law case where what's alleged are bad faith threats or notices to the trade about enforcing a patent, that between the fact that there's a provision in the patent law that allows a patent owner to notify people may require them, for damage purposes, to notify people of potential infringement, and the presumption of validity.

These claims, although they can be made, require proof of bad faith under a very high, clear and convincing type standard. I question, I guess, whether that is necessarily the correct balance. There seems to be a presumption or an assumption by the Federal Circuit that patent policy of notifying people is more important than the state law on fair competition principles or the antitrust principles that might be involved or the

Lanham Act principles that might be involved. I'm not sure that that's necessarily the right answer to that question, although it clearly is a possible answer.

After considering Vornado, as I think I mentioned this morning, I've kind of come around to a view that maybe one way that would make sense to approach choice of law issues would be to say that when you have an arising under type issue, an issue, and even though it's an antitrust case and an antitrust issue, but one that necessarily involves looking at and determining real questions of patent law, those ought to be questions where federal circuit law applies exclusively, whether the case is -- and most of those cases will be in the Federal Circuit, although I suppose it's possible that some now may still be in regional circuits.

But it seems to me that, as I mentioned with respect to Nobelpharma, you'll actually have a situation where the Federal Circuit will hear some of these cases repeatedly and will be able to develop a doctrine and a body of law that's easy to follow and relatively comprehensive and is able to deal with the circumstances that arise. It seems to me, indeed, that if legitimately related to the patent jurisdiction, and as Judge Ellis said, it's important that people behave

correctly before the Patent Office and that they be punished if they committed inequitable conduct. The court ought to consider what the standards of behavior are before the Patent Office, it seems to me ought to be the Federal Circuit, because they are going to be the ones to see that issue time after time.

I don't think that standard works as well when you're talking about refusals to deal or licensing questions. As I said this morning, I think other circuits are going to have perhaps a better developed body of law or at least in a position where they may have a better developed body of law and the subjects like that involving not just patents, but other things, like copyrights and other closely related types of rights.

I guess I disagree a little bit with what Bob Taylor said about other circuits not necessarily having recent case law, because I think you do have the Microsoft case, in the D.C. Circuit, dealing with a lot of the -- even though it's not a patent case, a lot of the kinds of issues that could arise from a patent antitrust case. You have the Alcatel case in one of the circuits, dealing with misuse, but on a kind of antitrust theory. You have Judge Posner's case. I know there's a PrimeTime case in the Second Circuit involving

licensing of copyright.

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

MS. GREENE: Comments, yes? Cecil?

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

their region, and that's the question.

MS. GREENE: Answers? Responses?

MR. QUILLEN: I don't know the answer. But to me an even more fascinating question than what antitrust law is the Federal Circuit going to apply, it's what patent law are the regional circuits going to apply?

MS. GREENE: Bob, yes?

MR. TAYLOR: If I could have the microphone.

I think that is actually not only an interesting question, but it is one that is going to get massaged very carefully by the patent owner who has been sued, and who finds itself with the option of filing a counterclaim or filing a separate lawsuit, presumably the federal lawsuit heading to the Federal Circuit, the counterclaim patent case heading to one of the regional circuits, and an opportunity, at least, to argue to the regional circuit that the law should be something other than what the Federal Circuit says it is on a patent issue.

And there will be lots of issues, not just the obviousness questions under Graham versus John Deere and its progeny, but there will be -- the Federal Circuit has been pretty tough on patent owners on written description, for example, on section 112-6 and its application.

So, there's going to be, unless the Congress decides to change the result in Vornado, I think there's going to be a fair amount of forum shopping by patent owners.

One of the things that Jim said provides, also, a fairly interesting wrinkle on this. I think everyone is assuming that in the aftermath of Vornado, you may see filed some cases under Walker Process and Handguards, starting out as a garden variety antitrust case that will at least possibly end up in the Federal Circuit because of the pending patent question there.

There's an interesting wrinkle on that that I have run into in a couple of cases of my own, and that's the question of whether, without a patent lawsuit filed initially, whether a plaintiff has standing or can show antitrust injury sufficient to sustain a Handgards or a Walker Process case? I know there's at least one Ninth Circuit case that affirmed a dismissal of the Walker Process case premised on threats to enforce and not the actual filing of a lawsuit.

So, that really does tend to complicate the analysis of this whole question.

MS. MICHEL: On the question of what law regional circuits should apply to patent questions: Is there any argument that the regional circuits should

apply Federal Circuit law in the same way that the Federal Circuit should apply regional circuit law on non-patent questions? Do you think there will be good data at some point?

MR. KOBAK: I would say yes, but I think the question that somebody raised is what is the law? If you've got it seems like the Federal Circuit has said X and the Regional Circuit has said Y, they are more bound maybe by the Supreme Court than they are by the other circuit. I think in theory they ought to be applying the Federal Circuit law just as if they were in the Federal Circuit.

MS. MICHEL: From a practical or pragmatic point of view, how likely do you think it might be that the regional circuits delve into those questions rather than simply accept the latest statement by the Federal Circuit on a legal issue?

MR. QUILLEN: I don't think they're going to be able to avoid it. Somebody is going to be arguing that the Supreme Court pronounces the law and that you should follow the Supreme Court law; because it's going to be more favorable to at least one of the parties in the lawsuit. So that this is going to be one of the early issues that gets placed by the first district court that has one of these cases.

MR. KOBAK: But one of the corollaries of that is at least this issue will surface. Perhaps, then, the Supreme Court will see that there is a split in the circuits or a difference in the way the courts are following its precedent, and actually take a few of these cases. So, that could be one of the advantages of having jurisdiction in more than one court.

MS. GREENE: Yes, Bob?

MR. TAYLOR: But my guess is that not very many panels of busy courts of appeals are going to want to strike off on their own after 20 years of the Federal Circuit a specialized court with tremendous experience in the area of patents today, in today's economy. I just don't envision very many. There will undoubtedly be some, because judges come from the basic population of lawyers and lawyers tend to be fairly head strong people, and undoubtedly there will be some, but I don't envision this to be a major issue.

MS. GREENE: Actually if we could turn to our next presentation by Matthew.

MR. WEIL: Well, Ms. Greene, I want to thank you, the FTC, the DOJ for having me here today. I feel a little outclassed by a panel of such distinguished and, if I may say, more experienced in some ways practitioners. But I think I've stuck my neck out in

the past with a series of articles that at least came to Ms. Greene's attention, and so I want to turn to some of those and some of the issues raised in them.

For reasons that have been nearly universally proclaimed throughout these proceedings, I think we can take it as a given that technological innovation is a major, perhaps the major engine of this country's economic success, and as much as anything else that success has secured a position of global leadership. So it's difficult to underestimate the issues that we're grappling with here. For reasons others have expressed more eloquently and more authoritatively than I -- and I, too, believe the United States patent system and the protections it provides us play an important role in promoting that success.

But I'm glad to be here today to talk about a particular element of that system that is near and dear to my heart, and I say it's near and dear for several reasons. First, at McDermott in Irvine, California, where I practice, I'm one of six partners in the irvine office who devote their full professional attention to these issues. Second, as a member of the Board of Directors for the Orange County Patent Law Association, which is sort of like a mini-regional AIPLA, it takes up time in my spare time. And then third, as I've kind of

alluded to, I've made it kind of a hobby of giving critical attention to the court and its jurisprudence.

So, for all those reasons, as an advocate and as a colleague of my -- of other practitioners in my area, and as a critical observer, I've taken a keen interest in the Federal Circuit and its workings. And with that background in mind, I want to touch on three general topics here today.

I want to summarize first briefly those three articles that I wrote with a friend of mine, a former partner of mine -- a current partner of Bob's, by the way -- Bill Rooklidge at Howrey Simon, and the debate we tried to spark with those articles.

Second I want to update them a little bit since it's been a couple of years since we finished our little triptych. Third I want to tie our observations about what we pulled out of those articles, if I can, with a word or two about the nexus of patent and antitrust jurisdiction.

So, back in '98-'99 and 2000, Bill Rooklidge and I addressed three distinct but interrelated aspects of Federal Circuit jurisprudence. In a first article called "Stare Undecisis," the sometimes rough treatment of precedent in Federal Circuit decision-making which came out in 1998 in the Journal of the Patent &

Trademark Office Society. We looked at the doctrine stare decisis as it's applied by the Federal Circuit. As I'm sure everyone here knows, stare decisis is the principle that once a decision has been made by a court, subsequent panels of that same court, subsequent courts, will follow and apply that decision in cases with materially similar facts.

As Oliver Wendell Holmes observed, this sort of principle allows court opinions to serve as what he called "prophecies of what courts will do in the future."

Under the version of stare decisis adopted explicitly adopted by the Federal Circuit early on in one of its early opinions, the court precedent as set out by any three-judge panel is binding and subsequent panels must go by that precedent unless or until it's overturned by the entire court sitting in bank.

We playfully entitled the article, "Stare Undecisis" because it examines ways in which the Federal Circuit could be said to have overlooked or side-stepped the precedent announced in prior case opinions of its own, and failing to give those cases their full stare decisis effect.

We argued in this article that this practice created or exaggerated conflicts among various decisions

of the Federal Circuit, and led to less certainty in Federal Circuit decision-making.

The second article, "Judicial Hyperactivity: The Federal Circuit's Discomfort with its Appellate Role," was published in early 2000 in the Berkeley Technology Law Journal. This article discussed another bedrock tradition of American jurisprudence, mainly the specialized role appellate courts have in our judicial system, and the restrictions that prevent them from becoming mini-trial courts, retrying the cases that are presented to them on appeal.

The "Judicial Hyperactivity" article looked at the tendency of the Federal Circuit in certain circumstances to reach beyond its role as an appellate court to make independent findings of fact, even to undertake its own fact investigations, rather than simply reviewing the record or the case presented to it.

The article also looked at ways in which the Federal Circuit from time to time stepped out of its role as arbiter -- as decision makers -- and became advocates, deciding cases on grounds never actually even presented by litigants.

We argued that this inclination on the part of the Federal Circuit, like the inclination to overlook conflict in its own precedent, undermined the goal of

certainty and predictability in its decision making.

Then finally in late 2000, we published an article in the Santa Clara Law Review entitled: En Banc Review, Horror Pleni, and the Resolution of the Patent Law Conflict." For the title of this article, we stole from a term coined by Carl Lewellyn, Horror Pleni, which means literally a fear of the pleni or fear of the group. We referred to what we viewed as reticence on the part of the Federal Circuit to use the most important tool at its disposal to tackle intra-circuit conflict, namely the tool of en banc review, or review by the entire court.

Now, while we acknowledge and it's certainly beyond dispute that en banc review is very time consuming and draws immensely on the resources of the court, and while we acknowledge that that can be inefficient, we argued that it was the best way to resolve apparent conflicts in court precedent and promote greater certainty and predictability of the patent law.

As an aside, I will note that of the primary conflicts in patent law that we -- in Federal Circuit law that we pointed to in the first article was a conflict between the Maxwell v. Baker case and the YBM Magnex case. It was at the expense of my own client,

Johnson & Johnston Associates that the court took us up on our invitation and reversed the case that we had won in the district court, resolving that conflict, and so I think to the greater good. But I hasten to add now what I should have said in the beginning, I speak only for myself now and not for my firm or for my clients.

So, these articles that I am discussing were written three and four years ago. Since then, some of the problems we sought to raise for discussion and consideration have, in fact, become less problematic, all goes to the dismay of one or another litigant, I'm sure.

If we were writing those articles today, we would have less to take exception with. For example, in the area of intra-circuit conflicts, which the court has taken considerable strides towards reducing. On the other hand, new concerns have arisen in the way the Federal Circuit asserts and exercises its jurisdiction.

Now these four years have shown, I think, that the Court could be in some ways more activist than we had seen in the past. More willing to assert its jurisdiction and sweep new issues into its gambit of control.

There is continuing uncertainty about the scope of the Federal Circuit's jurisdiction and the reach of

its own laws for this reason. The Federal Circuit remains prone under certain circumstances to overstep the role defined for it by statute, and by Supreme Court precedent.

And I wanted to touch particularly on one way in which we have seen the Federal Circuit challenge these boundaries, and it is an issue others have touched on today. I think there has been a discernible trend in recent years for the Federal Circuit to apply its own laws rather than the laws of regional circuits to more and more questions.

We have seen this creeping -- I'll call it Federal Circuitization of the law in relatively unessential areas, like procedural rules bearing on the resolution of patent law issues. But as the subject of this discussion here really highlights, we have also seen it in what I think are quite substantive and important arenas, the most dramatic of which is represented by the Nobelpharma case, in which the court dramatically expanded, I think, its jurisdiction over questions of antitrust law.

In Nobelpharma, the Federal Circuit announced in words that may have been a little ill-advised, that whether the conduct in prosecution of a patent is sufficient to strip a patentee of its immunity from the

antitrust laws, is a question that involves the Federal Circuit's exclusive jurisdiction.

Incidentally, it was a departure from the court's prior precedent to make the statement that it required just the sort of inbound growth that we had urged the court to do in one of our articles. I don't mean to imply that it was following our suggestion, but we do get some points for corrections, perhaps.

In Nobelpharma, the Circuit Court reasoned that most cases of antitrust claims arising out of the prosecution of a patent would lie within its appellate jurisdiction anyway, and that the Federal Circuit was justified in applying its law for the laudable aim of developing uniformity in an important area of antitrust law.

Almost immediately the Federal Circuit was called upon to clarify the scope of the sweeping pronouncement it had made in Nobelpharma. In an unpublished opinion just a few weeks later entitled, In re: Film Tech Corp., the court had made it clear that it did not intend to suggest that it had exclusive jurisdiction to decide antitrust claims arising out of fraud in the Patent Office, but rather that it was going to apply its law to those cases that happened to come before it.

Some commentators and speakers here today, in fact, have looked at Nobelpharma and the cases which have followed it and noted that the Federal Circuit has done a good job crafting its own antitrust law that is largely in accord with the mainstream of antitrust law developed in the various regional circuits. However, while the Federal Circuit may have done in its foray in antitrust law, I think it's impossible to object to the Nobelpharma opinion on principle alone. Even if the Federal Circuit appears to be getting it right in this particular area of the law, it has done so in a way that suddenly erodes the boundaries between the Federal Circuit's jurisdiction and the jurisdiction reserved to the regional circuits.

In this regard, the Federal Circuit's rationale for carving out a piece of the antitrust law as its particular domain, I think was simply too powerful. There are probably other areas of law that arise only in connection or often in connection with patent litigation that could certainly use more uniformity. For example, there is considerable variation in how states treat contract laws for the assignment of patent rights. Like the antitrust nexus identified in Nobelpharma, this is certainly an area in which uniformity could streamline the application of patent laws, but that is clearly not

an area where the Federal Circuit is permitted to apply its own laws.

In any event, it is an area where the Federal Circuit has to date consistently ruled that regional circuit and state law control. The Federal Circuit was not formed to bring uniformity to the laws generally, its mandate is to bring uniformity to the patent law, and as to core concepts and rules, it has largely done that, by reaching further out of its core area of concern and beyond its core jurisdiction, the court challenges the balance between two competing values, uniformity and diversity.

In accordance with the basic federalist values underlying our system of government, the system of multiple circuits has evolved as a way to permit or even encourage competition among the circuits, in a sense, in the development of the law. The diversity among the circuits moderated and guided by the Supreme Court, when it sees a need to resolve conflicting approaches, is something that ensures both progress and stability in our laws. By applying its own law rather than the law of the regional circuits to particular antitrust issues, the Federal Circuit chips away at that diversity.

I want to join Bob in putting these comments in perspective. The Federal Circuit which was formed in

the 1980s for the reason and with the mandate of bringing uniformity and consistency to the patent laws has done an incredibly good job in doing that in many areas. It has consistently in the past and still today continues to move in the direction of fulfilling its fundamental mandate.

Practitioners and the district courts have a growing, elaborate and I think largely consistent and sensible body of law to which they may now look in counseling clients and deciding cases. But we should be weary about letting the Federal Circuit declare its own monopolies over areas of law such as antitrust. In the development of antitrust laws, as in other areas, competition can be a good thing.

Thank you.

MS. GREENE: Thank you very much, and let's pause for just a moment, I do realize that we have two more presentations left, as well as Professor Dreyfuss is going to give us some additional comments, but let's pause for a minute and look at some of the choice of law issues.

Anybody want to make any responses based on the presentations?

(No response.)

MS. GREENE: Okay, Suzanne?

MS. MICHEL: Let me start here, with a question, do you think that the overriding concept when the Federal Circuit is deciding what law to apply, what is that concept, and is it whether or not the question presented is a patent question? If that is the overriding concept, is it always so straightforward to decide what's a patent question and does anyone have any commentary on how we might wrestle with the sticky issues at the interface of antitrust and IP? I think, in particular, my line of questioning here might take us back to a very early exchange early this morning with Bob Taylor about do we define some of these questions as antitrust questions or patent questions, and that might depend on where you're starting from.

In particular, there's a license question that I think a patent lawyer might say yes, that is a patent question, because whether or not I have the right to refuse to license based on my patent is determined by the scope of my patent and not by antitrust law.

MR. TAYLOR: I think it's also, though, determined by provisions in Title 35 such as 271(d). I mean, there is a statutory construction question that has to be faced, and a refusal to deal in a case where the defendant is arguing that this does fall within the protections of 271(d). There are obviously arguments

that 271(d) was intended to apply only to patent misuse and shouldn't be applied to the analysis of an antitrust question, but most serious scholars, I think, have come to the conclusion that if that's the law, it really is not a very intelligent construction of the law, even though there have been some courts that have held that.

So, it seems to me that certainly the antitrust questions governing the manner in which you may commercialize a patent without running afoul of the misuse concepts, the manner in which you can assert a patent where the patent is ultimately determined to be invalid and the whole breach of the Walker Process and the Handgards cases, those questions are awfully difficult to separate from what's necessary for uniform construction of Title 35, in my mind.

MS. GREENE: George?

MR. GORDON: I think, Suzanne, your question, you put your finger on, as you did this morning, a really fundamental question lying at the intersection between antitrust law and patent law, and the interpretation of the CAFC case.

In thinking about this, and I throw this out there for consideration, I wonder if there's not a line that could be drawn based on the idea behind the second prong of the arising under jurisdiction test, which is,

resolution of a substantial question of patent law. Because it seems to me that maybe if you look at cases like Nobelpharma and sham litigation cases, they're the cases, the cause of action, the non-patent cause of action, whether it be antitrust or otherwise, does require resolution at a substantial question of patent law.

When you're talking about the cases related to refusal to deal, such as Xerox, I mean in my mind, I think they turn more on the question of whether patent law trumps other causes of action and less on the question of resolving a question of patent law. That's the area where I really wonder whether or not we're better off having multiplicity of views and having an opportunity for other circuits to take up that question, because it does involve competing sets of values.

MS. GREENE: Matt?

MR. WEIL: I guess just to build on that, the value of the multiplicity of views should provide some impetus in a Federal Circuit kind of setting where they really do call the shots. They're getting the cases and they're deciding themselves whether their law or another law is going to apply. They ought to be bending over backwards, I think, to look for ways to draw analogies to other areas of law, to closely related to the figure

and ground that Bob talked about, they ought to look for that ground and call on those principles, whenever they can. It helps stitch them into the fabric of the law better, keeps them from becoming a rule unto themselves, and immunizes them from the kind of criticism that they might otherwise draw.

MS. GREENE: Cecil, why don't you -- you were sort of inching to give your comments.

MR. QUILLEN: Well, I have to --

MS. GREENE: Put it all together.

MR. QUILLEN: I'm not sure how to put it all together, because it really follows more closely to Judge Ellis' comments than the intervening comments. Like everybody else, the views expressed are mine and mine alone, based on some 30-odd years of having done this sort of stuff, and they certainly should not be attributed to either Cornerstone Research or the Eastman Kodak Company.

I start with some assertions, some of which can actually be documented and supported in the materials you were kind -- the Commission and the Department were kind enough to include in the comments section. So if there are people who want to know whether I had anything to back up what I'm about to say, I would refer you to the comments section where my views are expressed ad

nauseam, and with a measured degree of cynicism.

I start with an assertion that for innovators, that is to say people who introduce new products or new processes, who commercialize these, dealing with the patent system is an important function. The way innovators deal with the patent system, so far as I know, is that they seek patent applications on the inventions that they might expect to commercialize. And we can have great debates about how serious your intention has to be.

The purpose for seeking these patents is to preempt others from getting patents that might prevent you from commercializing your invention, and thus turn to waste all of the money that you spent on it.

The Federal Circuit came along in 1982, and promptly lowered the standards for patentability that were applied in the United States, and in addition introduced uncertainty into the valuation of patents and the determination of patent validity and invalidity issues under the nonobviousness question that had not existed before.

The initial quantification was that prior to the Federal Circuit, something like two-thirds of the patents in which there were validity decisions were held invalid and following the Federal Circuit the initial

quantification was that only about one-third of the patents were held invalid by the Federal Circuit. Mark Lemley and John Allison had a more recent paper out that would put the number at about 60 percent, depending upon how you read it.

Now, what did innovators do? They responded. In the years before the formation of the Federal Circuit, the Patent Office received about 100,000 patent applications a year. Following the Federal Circuit, the line took off and started north, and by the year 2000, they received nearly 300,000 patent applications. So, tripling the number of the patent applications that were filed between 1983 and the year 2000.

In the same interval, the Patent Office acceptance rate, and there are different ways of measuring this, the paper that Harvey Lipson [phonetic] and I did is available in the comments section that looked at the 1993 through 1998 time period, I believe it was. We have another one coming out that takes us back to 1980, which will appear in the August 2002 issue of the Bar Journal. But the acceptance rate measured by what we've called "allowance percentage" went from about 60 percent in 1982 to something like 90 percent by the year 2000.

Another measure is the grant rate, which is the

number that is published by the Patent Office on the trilateral website. This went from something like 80 percent in 1980 to just shy of 100 percent in the year 2000.

Now, I understand from Steve that the Patent & Trademark Office is going to rework our figures and see if they can come to different numbers and they expect to publish theirs. But the point is that the standards for patentability if the Federal Circuit were lowered, the immediate response of innovators was to file drastically more patent applications in their effort to preempt others so that they could bring their products to market without interference from others' patents, and the number of patents granted, which went from about 60,000 in 1983 to more than 160,000 in the year 2000, what Carl Shapiro has described as a patent thicket, in which Mr. Muris in his speech indicated that it was something that innovators had to hack their way through in order to commercialize their inventions.

The long and the short of it is that the lowering of the standards for patentability and the building of the patent thicket had increased costs for innovators who choose to bring their products to market. And I am not an economist, but I do think that I have learned that if you increase the cost of something, you

get less of it and it costs you more. I believe that's the way the demand curve works.

The additional uncertainties that had been introduced by those in question considering the evidence collectively as opposed to a series of questions that can be answered yes and no has its bearing on cost of capital for innovation investments. The example I use, which I'm sure the economists would tell me is not quite right, is our Polaroid case, where a judgment for $905 million was announced against the Kodak Company, eliminating the uncertainty, and the following day, our market value went up by $921 million. So, we felt like we had a pretty good day's work. The company was worth $920 billion more to the shareholders after we suffered a $905 million judgment. But the uncertainty disappeared, and some element of that change was a result in the elimination of the uncertainty.

I have a solution. I don't know that anybody else would adopt my solution, but I think we need to restore the higher standards for patentability that existed prior to the advent of the Federal Circuit. If the regional courts of appeal could be relied on to follow the Supreme Court, and their well-developed precedent under Graham versus John Deere, and Adams, and the other cases that I mentioned, the quickest way to

restore the standards for patentability that once existed would be to restore appellate jurisdiction in patent cases to the regional courts of appeal.

I think this fall we will have an opportunity to discuss whether that's a good idea or not, because there undoubtedly will be legislative proposals to undo the Vornado case, and if you're going to debate in Congress what is the appropriate jurisdiction of the Federal Circuit, maybe you ought to debate in Congress what is the appropriate jurisdiction of the Federal Circuit.

There are a couple of other issues that I think are not quite in the mainstream of this. One of the papers that's available in the comments section of the hearings is a paper by Dr. Vincent O'Brien of the Law and Economics Consulting Group, and Vince has gone through and done what I guess he calls it an economic analysis, the title of it is "Economics and Patent Damages." It's been published in the University of Baltimore Intellectual Property Law Journal, and Vince demonstrates the absence of economic thinking that governs patent damages law in the Federal Circuit.

And given the inability to get around stare decisis, if you will, I don't know how you fix patent damages law in the Federal Circuit, because the district courts follow the law pronounced in the Federal Circuit,

and it takes a very brave district court judge to decide that the Federal Circuit which is going to hear his appeal doesn't know what it's talking about and you ought to rule against them.

So, one way of correcting the erroneous damages law would be to have the appellate system reversed so that it goes back to the regional courts of appeal, which I have every confidence that over time would correct the economic errors.

Final point which, again, is a stray one, but was suggested in part by Mike Scherer when he was here yesterday, is the Federal Circuit seems to me not to give due credit to competition as a driver of innovation.

And Hillary knows that I've already recommended that the Commission needs and the people working on this need to pay great attention to a new book by Will Baumol, an economist at NYU and Princeton, and the title of his book is The Free Markets Innovation Issue. And the essential thesis of Will's book is that in oligopoly markets, which happens to be the kinds of markets that we live in, the free market by placing the oligopolist in a position of competing on innovation, is what drives innovation, and the innovation, in fact, is routinized. Those of us who work in industry where we have

established research laboratories, I think can understand what Will is talking about.

Bob made reference to it this morning, the R&D and the investments are going to be made, whether you get a patent or not. And Will would not exclude the usefulness or importance of the patent system to fostering innovation, but I think he would urge that you not overlook the fact that competition is a powerful, powerful driver for innovation.

Final point I would make is that the debate about patents in the Federal Circuit. The debaters, if you will, frequently pass in the night, and the defense is raised as if the challengers were trying to destroy the patent system, and I think that's not the case. Certainly the people that I talk to and the people who share my view, I've spent a professional lifetime making a living at it, so I've got to have some affection for it. Our system is dysfunctional, it doesn't work well, we need to fix it so it can do the job that it should do.

Thank you.

MS. GREENE: Thank you. Still more added to the table, and what I would like to do is to have Bhaskar give his presentation, and then we'll have an opportunity after that to hear Professor Dreyfuss'

comments. Then I would like everybody on the panel to have an opportunity to either respond to the additional presentations or make whatever points you've been unable to make.

MR. BHASKAR: I am going to talk from here, I think I can get this going, sort of.

You know, I came here thinking that I knew something, and as has happened to me many times --

MS. GREENE: Can you speak into the microphone?

MR. BHASKAR: Sure. I said that I came here thinking that I knew something and had something to say. But as has happened to me many times, I'm finding out that I do not know anywhere near as much as I had thought, let alone even as little as I would like.

So, what I have to say will sound naive and a bit of a hash of, you know, picking and choosing from different things that I have been hearing all day. And I want to start off by thinking to myself and saying it, that one century's solution is sometimes another century's problem.

The patent system was essentially invented at the time when one of the greatest wealth transfers was happening in human history. Agricultural wealth, land and wealth was getting transformed into industrial wealth, and the patent system was basically an invention

of the people for the change to industrial wealth. The patent system was fought by the reactionaries at the time, and it has survived so far.

And I will say something that's totally banal and trivial, you're going to pick up the Boston Herald and you can no doubt read it in its wise editorials. But the thing is, I think we are altogether birds of another kind -- we are starting through another kind of transfer of wealth, a different species all together, and this is computational property.

And I think what we are talking about, and the new difficulties that we seem to be having in the last 15 or 20 years have to do with the fact that this transfer is taking place. Like it or not, we have a whole set of issues to resolve, and I do not believe that it is possible to do this anywhere as simply or as elegantly as the Founding Fathers did by inventing a patent system.

So, I sort of want to say the problem before us -- in terms of understanding the conflict between antitrust law and intellectual property law -- is, I believe, a very, very difficult problem. I do not believe that there is a simple answer to this. And I also come to this somewhat with a -- somewhat eccentric set of perspectives.

Sometimes I think like a computer scientist. I received my first email address I think in the fall of 1973, and somehow programming has been my life in one form or another. And the thing is, the problems of the programming profession, the problems of the science of programming has been sort of the -- how would I say it -- the fruit fly for all these experiments that we have been talking about, whether it's creating the Federal Circuit, or the draft Intellectual Property Antitrust Protection Act -- Antitrust and International Property Protection Act I think it was, I don't think it ever got through, but they produced a beautiful report.

The thing is that having the computer program and having it go from being a toy to being one of the most fundamental engines of wealth is a very big deal. One way to know that it is a very big deal is to realize that now it's been a fairly big engine of fraud in recent months and years. That, to me, proves that it's, in fact, an engine of wealth. So, having said that, it seems to me it's really important to try and understand scientific and technical realities.

The second thing that I do want to say, what people call the economic perspective is to recognize that there is a fundamental conflict in the public purpose. This fundamental conflict in the public

purpose cannot be easily done away with by changing procedures, by switching from jury verdicts to judicial determination or any of those things. Fundamental questions like this in our system are resolved through public debate, perhaps corrupt public debate, but definitely public debate.

Lastly, the question of uniformity, which was both in the statute creating the Federal Circuit, and the draft bill before the Jack Brooks Committee in 1980, '81 -- I think it was in the '80 to '82 Congress, both of them mentioned uniformity a lot, and I think uniformity is important. I'm all for uniformity, and I'm even for balance. But I think that uniformity is a management matter when it comes to the Federal Circuit.

I do not believe that it's either a -- I do not believe it's a public policy question. I think that to understand -- to say that there is a need for uniformity is a kind of docket management, but I don't see this as rising to the level of a public policy question.

The second set of things I want to say is that obviously it needs an empirical approach. You know, one of the things that I will share about computer science is that to say in computer science that a finding is empirical is to be abusive. And you say it's not, you know, the best findings are not based on facts, they're

based on derivations on mathematics, on theory, and here I realize I'm not using that sense, I'm saying that we need more facts. We have a lot of facts, but the point is that we still do not have enough data about patent issuance, about the Federal Circuit, and so on.

You know, the last conference I was at on patents in D.C. was at the National Academy of Sciences, and one of the speakers there got a really wonderful laugh, he was the envy of any speaker, by pulling out a patent which was maybe a year or so old, and all of us being sort of the super ego of the patent examiner, could say that that was an invalid patent, and we laughed.

And the thing is I actually have back in my office, and I will show you when you visit me, a beautiful book by Dover, you know, published in the '40s or '50s, it's a slim book, and it has patent -- it's a book of patents, and one of the patents in it is a patent of how two trains can avoid an accident, by running into one another. You see what happens is that these trains have these beautiful spring-loaded things in front of the engine for each of them, and then the patent says they run into one another, the spring is compressed, and they ride harmlessly over one another, it says.

I bring this up because it's childish amusement for me, for a lot of times, I can always read it and laugh. The thing is that was a long time ago, in 1935, and there are always patents, any bureaucracy, that are always mistakes. I am not comfortable saying that the patent system that we have should be judged through the worst cases, but I do believe that there is a problem; but the problem is a problem of reconciling these two public purposes, not necessarily of blaming it on one bureaucracy or another.

And by when I say another, I'm thinking of either the Patent Office or the Federal Circuit, or have certain administrative constraints, and those are what it seems to me work.

So, I suggest that it's an incommensurable problem, and Justice Scalia in a case in 1998 wrote, asked whatever the question was at issue, he says it's like asking whether a line is longer or a rock is heavier. I want to say that much of the conflict between patent law and antitrust law is like that. It's not at all easy to compare them.

Furthermore, the consumer welfare approach to antitrust law, to patent law is not at all -- I mean, even though I don't agree with it, even if it were, the point is that the mathematics of it don't -- the

consumer welfare models are simply inadequate for dealing with any of these things.

So, now this is the part where I do not know how I would proceed. So, let me offer these, I might have changed them if I had had the opportunity today, but I sort of went through the exercise of saying, what questions would I like students in a course to answer if it was a course on antitrust law and intellectual property law. And I will leave those for you.

And then finally, the question of is the question of uniformity as important now as it seemed in 1981? Is the need for stable computational property regimes trumped by the need for inter-patent uniformity? Have we now learned enough from the Federal Circuit experiment to proceed to beta test the next version? Those are all questions that I would like exercised.

Thanks.

MS. GREENE: Okay, you will all have five minutes to write down your answers to the questions, and then Professor Dreyfuss will grade us. But if you can proceed, Professor Dreyfuss.

MS. DREYFUSS: Hillary had asked me to provide some reflections on the discussion, and this is my penance of not doing a presentation of my own. It's a particularly draconian punishment, given first of all

the wide range and insightful input that I have to reflect upon, and also I have been here for two days, so actually I have twice as much to reflect on than what you might think. So, thanks a lot, Hillary.

But anyway, the hearings over these last two days have addressed many difficult questions on the interface of patent/antitrust law today and various doctrines of patent law yesterday. But I take it the main question for these two days is not so much the substance of the law as institutional design. There are a lot of actors here. There's the PTO, there's the Justice Department, the FTC, and most particularly the courts, the CAFC, the regional circuits, the district courts, the state courts. The real question that we have is what arrangement of authority is most conducive to getting all of these difficult questions answered correctly in a way that's most responsive to the needs of the economy under our best understanding of economics, and that's most faithful to the goals of promoting the progress of science and enhancing consumer welfare?

But one feature of that design is certainly the rules on jurisdiction. And I think that there's general agreement around the table of the Federal Circuit has expanded its authority over the years and that expansion

may now be cut back by the Vornado decision. How much is going to depend on how manipulatable the pleading rules or, and I think Jim Kobak gave us a nice discussion of rule 13(a), and it's really going to depend a lot on what's considered compulsory and what's considered permissive.

The real question, though, of course is whether the Federal Circuit's jurisdiction should be broader or narrower. One thing that struck me on that issue is the stark difference between yesterday's conversation and today's conversation. Yesterday's conversation was mostly law professors and it was almost all law professors and economics professors, and they expressed quite a lot of dissatisfaction with the --

MS. GREENE: And Steve.

MS. DREYFUSS: Yes, and Steve, yes. Steve's everything.

And people expressed a certain amount of dissatisfaction with the court. Today we've had mostly practitioners, and Steve, and I'm appalled that people seem fairly happy, or at least when I wrote this at lunch, people seemed fairly happy, and one small vignette was remedies. This morning somebody pointed out that the court has really done a lot on remedies and it's really great because it gives people more incentive

to litigate. Yesterday everybody said just the opposite, inventing is like dancing through a mine field, Mike Scherer said, because the court's been so generous with remedies that now, you know, if you happen to step on somebody's patent, you get your leg blown off.

So, there's really been a big difference in the way that people have thought about the court. And my question is sort of, why that difference? Well, one is maybe people have practiced before the court are less inclined to criticize it on the public record, or maybe it's academics can't help but grade people all the time, as you've just pointed out. But I think there's probably more serious answers than that.

One answer, and here I disagree with what Bhaskar just said. I think that many of you feel the importance of uniformity, that your clients need uniformity and predictability, and you think you can get more of it out of the Federal Circuit. And on the question of what does uniformity mean, I think in the context of the Federal Circuit, it's not the legal rules, it's the outcome of the legal rules, and I think it for a couple of reasons.

One is that the notion of creating an expert court was in order to apply the law to technical facts

in cases in which the outcomes are very fact dependent. And so that's why I think it's about outcome. And also I think a major goal was to avoid forum shopping, and I think it's the outcomes that affect forum shopping and not the rules.

Well, if that's the case, if uniformity is so important, then I would take it that people would think that the jurisdiction of the court should be broad enough to include most patent questions that arise, and that we should be arguing for a change in Vornado, and even in expansion of Federal District Court jurisdiction to include cases in which a patent appears as a counterclaim.

So, also cases in which over licensing disputes in which the patent is the thing that's being licensed. That would eliminate the potential for forum shopping, it would bring all the cases to the federal -- to the CAFC, we wouldn't have races to the court house, we wouldn't have these artful pleading problems that might arise now. So, if it really is about uniformity, then I think that the recommendation would be to change Vornado.

Now, academics were very concerned about the content, and I actually don't think that that concern about content was entirely missing today. People

expressed satisfaction with the CAFC's holdings, but we've heard things like sweeping unnuanced dicta, and people talking about how holdings in the mainstream, this dicta is probably going to start trickling into the case law, and that that might be a problem.

Also this afternoon, people loosened up a little bit, not wild, stare undecisis Federal Circuit activism, we heard from Cecil Quillen about uncertainty and unpredictability in the court and from Judge Ellis as well. Yesterday, of course, there was a lot of talk about the content of decisions.

This notion of obviousness standard being so easy to meet, coupled with the very, very narrowing scope of patents means that everyone gets a patent, but the patent doesn't cover very much. That would be an okay rule, people said yesterday, if that were really the best system, but the court never really looks at that question of whether that's a better system or whether the thicket of rights that's being created isn't a really hard thing to work through and we wouldn't be better off with fewer rights, but stronger rights.

In other words, people said yesterday that there was kind of a lack of reference to what the economics of the situation is turning into, and a lack of reference to what economists would say about that. There was talk

yesterday about Festo, and the court's willingness to have a very inflexible rule on prosecution history estoppel, a rule as to no consideration or sort of linguistics and what can language possibly capture, simply that the Supreme Court did apply to that case.

Also things about interlocutory appeal, the lack of interlocutory appeal after the Markman decisions, and the court's unwillingness to pay close attention to the ramification of its own decision in terms of how people actually prosecute their cases through courts. Well, if that's the worry, if the concern is that the content is really wrong, then of course limiting the court's jurisdiction does make a lot of sense.

Roxanne Busey said this morning that the antitrust bar would not have wanted a specialized court, and I think Charles Baker accurately captured the feeling of a lot of lawyers at that time as well. In that case Vornado is really a pretty good decision, because it will take a lot of these interface questions and bring them to the several circuits and it will also bring more patent law questions into the regional circuits, that will give greater intuitive change into patent law questions.

It might mean that the Federal Circuit will have to explain its decisions a little bit better, which

would require them to think more about the ramifications of its decisions, and sort of maybe get into the mainstream on some procedural issues, also.

It would also create splits between the circuits, as somebody pointed out, and that might lead to the Supreme Court to grant review on substantive patent law questions, something that it's basically not been willing to do. It's granted cert. on some Federal Circuit questions, but not on very many substantive patent law questions.

But there is the on the other hand aspect to this. To the extent you think the CAFC's decisions are bad, or not very adequately reasoned, then exposing them to a broad of context of innovation law and competition issues more generally would actually be a good thing and would improve the decision making in the Federal Circuit. If they saw more competition issues than maybe they would be thinking more about the misuse doctrine, they might want to revive it. So, stripping the court of authority in antitrust cases also has its downsides.

Now, the second institutional design issue that we talked about was choice of law, and here I have to say, I was just utterly surprised by the entire discussion that we had today. I guess if you wanted me to say something controversial, this would be it. This

notion of federal circuit law or regional circuit law, this came out of Judge Markey's head. This was not in the statute, Markey made this up. He made it up because he wanted, I think he was worried that a specialized court wasn't going to be well received. The last few experiments with specialization had been terrible flops, the Commerce Court was one example, but there were lots of other examples as well.

He thought that this would be a way to sort of slip the Federal Circuit in. But there's no such thing as regional law. I mean when we think about conflicts of law, we're used to thinking about conflicts of law. We think about a car accident between somebody from Massachusetts and somebody in New Jersey and it occurs in New York and the question is whose law applies or, you know, something between somebody in France and somebody in Germany and it all occurs in Japan, whose law applies?

But France and Germany and Japan and Massachusetts, New York, even I'm told New Jersey, these are all sovereigns. These people have sovereign -- these entities have sovereign authority. That's why there's choice of law questions, because these sovereigns make up law.

So, there is a choice of law issue. But just as

Brandeis said in its hearing against Tompkins, law does not exist with some definite authority behind it. The Ninth Circuit is not a sovereign. The CAFC is not a sovereign. These are not sovereigns. They're all interpreting U.S. law. U.S. is the sovereign in this instant.

Of course you could have a rule that said that each circuit has to defer to the interpretations of U.S. law, by other circuits, but that issue was specifically taken up at the time of the Edwards Act. The Edwards Act is what created the regional circuits, until then you went from the district court to the Supreme Court. At that time, the issue came up, should one circuit defer to another circuit's law? And Congress said no. The reason they said no is actually for reasons that we've been talking about here, because percolation would be a good thing. That the circuits each ought to interpret law, that law ought to percolate among the circuits, and then if you need a uniform law, it should go to the Supreme Court.

So, percolation was seen as an outgrowth of each circuit defining its own law, not circuits using each other's law. That was not the system that was devised. When the CAFC came in, nothing about the Edwards Act was changed, and so I think Congress' assumption at the time

was that the CAFC would make up its own law.

Markey did this weird thing. He had this weird image of the Janice looking in the different directions and all of that, and it might have made some sense if the Holmes decision came out differently. Now that we know, now that you know that at the time the case is filed which circuit the case is going to go to, there's absolutely no reason for the Federal Circuit to apply another circuit's law.

If you were deciding who was going to hear the appeal at the time that the case was appealed, then there would be a problem, because the district court wouldn't know what law to apply until the appeal was ready to be filed. But now you know at the beginning where the appeal is going to go to, there's absolutely no reason to have these different circuit laws. If you want percolation, if you want federal values, which is Matt Weil's term, then what you really want is for each court to make up its own law. Of course that would also eliminate the problem of other regional circuits going to apply for Federal Circuit law at the time that they hear patent cases.

That's not the scheme that we have for there to be deference, and I think that that scheme that we do have has worked out awfully well over the years and that

we probably shouldn't change it. So, I am very puzzled by this idea of CAFC law and Ninth Circuit law, et cetera.

Now, I think that a little bit of this concern about the CAFC making up its own law is actually code for people not being all that happy with the quality of the court's decision making. Maybe you all don't want to say it and you're not as willing to say it as academics are, and if that's the real concern, then these hearings are great, it really will give the FTC an opportunity to think about this question of institutional design and there are, of course, lots of ways to change the institutional design.

Yesterday we talked about giving the PTO genuine rule-making authority, today we talked about making the PTO the trier of fact and giving it juries, maybe ending this experiment, over the Federal Circuit as you just suggested, moving the expertise to the trial level is another possibility, instead of having a trial -- expertise at the appellate level, having it at the trial level.

There's also the possibility of changing the venue rules so that you could concentrate all patent cases in just a few circuits, for example, Judge Ellis' court and maybe three or four or five others around the

country so that district courts got some expertise but there were still generalist courts, and then of course there would have been new legislative ideas that people have proposed, changing the presumption of validity, changing the secondary considerations legislatively, an opposition proceeding and many other possible legislative changes.

So, I really look forward to what you guys come up with. You've got a wonderful set of issues on your plate.

MS. GREENE: We do indeed. Thank you for those insights and I want to just basically throw open the table to let anybody who can make additional comments that they wanted to make that they have not been able to make.

Steve?

MR. KUNIN: My comment is actually a carry-over from yesterday, but I didn't have a chance to say it, but I'm going to take advantage of the shoehorn that Charlie Baker provided when he gave his presentation, and briefly touched on the subject of blocking patents.

I think that there's a phenomenon that is overlooked and perhaps because the big brouhaha seemed to have passed because of some changes in their law. Back in the 1980s, there was a big problem with Japan

and it was under the general heading of patent flooding. There was a very famous case involving a U.S. company called Fusion Technologies, and basically what was going on was as follows: Because Japan had a system of publication at 18 months of unexamined applications, it would provide competitors of applicants, particularly domestic competitors, to build a fence around the originator's patent, and therefore block further innovation by the originator by putting together applications that were merely incremental changes over the basic technology and just file hundreds, if not thousands of cases to put a fence around the basic patent so that the inventor essentially who came up with the originally technology, in this particular case I think Fusion Technologies was in the electric lamp technology, but the gist of it was that coupled with the dependent patent system -- and if you don't know what the dependent patent system is, in Japan they had a dependant patent system which said that you filed an improvement patent, it automatically gave you a right to use the patent from the basic invention.

So, what happened to Fusion Technologies was Fusion got a whole number of people who were willing to take licenses, for what, a very short period of time, because what would happen is after they got -- the

competitor got the license and got advantage of the basic technology and a little bit of know-how, then they take the license for a very short period of time, and then they dump it, because they would then improve upon it, and of course since there's a big fence around the basic patent, there was no room to maneuver by the originator. And there was basically total freedom to operate by the downstream innovators.

And essentially this led to actually Congressional investigations in the United States, and a seeking basically for trade sanctions to be taken by the United States against Japan, based upon this patent flooding phenomenon.

So, I just raise that sort of a historical note, because most of what you hear here is the whole notion of patent blocking, where what you're talking about is how the originator prevents the improvement patents innovators from being able to bring technology to market, because they have this problem of stacked royalties or having to pay tribute to one or more early originators before they can compete in the marketplace.

And while I think there's empirical evidence and studies and lots of papers written on that, I think for the record it ought to be stated that there's the flip side of this, too, that should not go unrecognized.

The other quick note is, as Cecil indicated, we have gone through the data that he used and will publish papers to show that the asserted allowance rates are quite overstated, that some of the assumptions are incorrect, and also the analysis that shows in terms of comparative allowance rates with Japan and Europe also our use of the same data will show that, in fact, our allowance rates are a lot lower than our counterparts. We are going to have that data published fairly soon.

MS. GREENE: Thank you. Yes?

MR. HOERNER: As I listened to the presentations yesterday afternoon and today, and I tried to take an overview of an overview of an overview. I got more and more pessimistic, and I ended up with a very Hobbesian conclusion. It seems to me that one could draw the conclusion from all of this testimony that the patent system has become so complex and cumbersome that the very process it is designed to foster, which is innovation, is hindered. Too many patents are being granted on too many minor inventions which patents and the processes for enforcing them clog the system, vastly increasing cost. If this is the problem, I have no idea what the appropriate remedies are.

MS. GREENE: Okay. Anybody else? I would like to end on a happier note.

Yes, Charlie?

MR. BAKER: I just have one thought about Rochelle's, or a couple of thoughts perhaps. She mentioned that it seemed like some people thought the system was great and some people thought the system wasn't. My view is that I came looking at this in terms of the overall purpose of these to decide whether this system should be changed because they've got a change in technology importance, information technology. And in that view, maybe I'm just too practical, but I'm not going to listen to the theorists or the people who can cite a bad example, as you recognized. You shouldn't throw something out because of a bad example.

I don't see any great impetus to change the system. Now, if you want tomorrow to have a debate on how we can improve the system, that is to -- I don't want to change it for a new -- the differences in technology, you want to have a new debate tomorrow, or on litigation costs, that's fine. If you want to have a debate about how we improve the quality of the members of the Court of Appeals of the Federal Circuit, certainly that needs to be dealt with.

I mean, it's obvious if you have a court that says you have to live within 50 miles of the court, you're excluding a lot of qualified people from being on

that court. Is that a good applicant? That's something I didn't address in my topic, but if the issue is the quality of the decisions coming out of the Federal Circuit, that's at least one thing that you might consider.

So, that to me explains the overall difference, and what I've heard. I think that it's perhaps somewhat a question of half full or half empty and it's not only a question of what are you focusing on, you're focusing on extreme issues and how you want to tinker with it to improve it or whether you want to radicalize it.

MR. HOERNER: I didn't say you should.

MR. BAKER: I didn't say you should either.

MS. GREENE: Yes, Bob?

MR. TAYLOR: A couple of points. One, and I thought that --

MS. GREENE: Can you give him the microphone, please?

MR. TAYLOR: A couple of points. One, I thought that Bhaskar's point about consumer welfare being a difficult equation to reconcile is an extraordinarily important one. I think that the difference between consumer welfare as used as the touchstone for traditional antitrust analysis as it's being done today, and consumer welfare in the context of intellectual

property are quite different and we need to keep in mind that the primary difference is the time frame.

Traditional antitrust, while it does attempt to balance short-term consumer welfare with long-term consumer welfare, still tends to focus on the fairly immediate impact of a particular trade practice in terms of assessing its legality. Patents almost by definition, intellectual property, by definition, rarely is going to enhance consumer welfare in the short-term. If you just think about the mechanism of enforcing a patent or copyright, you are essentially removing a competitor from the marketplace, and depending on the market conditions, that may be completely benign as to consumer welfare, but it's certainly not going to enhance it.

And it often will not be benign. A patent owner will often be asserting any patent case where the patent owner is claiming lost profits. It is a market in which there is probably going to be a short-term negative impact on consumer welfare. The patent system is justified because the long-term consumer welfare gain is thought to outweigh the short-term consumer welfare loss, and of course that gets you into very difficult theoretical discussions of discount rates and the calculation of benefit to society which becomes a

terribly imponderable problem.

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

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

And except for Teka [phonetic], which I was sort of surprised by the concurring opinion of judge -- Justice Stevens, in the Vornado case, because I had forgotten Teka, except for Teka, the Court of Appeals for the Federal Circuit is really unique. We just have never created a situation where cases can go in two different directions from the same district court to

different circuit courts.

So, notwithstanding the legal theory about whether circuits actually have their own law, I never thought about it until I heard you say it, and I understand the point, but I would suggest to you that there are clearly rules that make up what looks very much like the fabric of law, and they're different circuit to circuit, and there's no need to reconcile them.

MS. DREYFUSS: Look at real choice of law, and when you're doing a real choice of law thing, which I'm sure you've done, you're looking at where the incident actually occurred, where the parties lived, who's got the greatest interest, you're not looking at what court happens to be litigating the case, except, you know, on procedural issues and which forum of law applies.

So, maybe you want to do it. It's not choice of law and traditional choice of law way of doing it, and that's why traditional choice of law analysis is never going to help you decide any of these questions. So, you're quite right, maybe for practical reasons you want to do something like that, but then on new questions that come up, it should be that same practicum that is the way that you answer it. And not through choice of law analysis, because that's not geared to anything

that's going on in this.

I mean, you can litigate a case in California in which the corporation is a California -- the defendant is a California corporation, but the infringement occurred in Tennessee, you're not going to go apply Sixth Circuit law, you're still going to apply Ninth Circuit law.

MR. TAYLOR: Yeah, it may be that the nomenclature that was selected to deal with a completely new problem wasn't as carefully selected as might have been. But I think the concept is at least a fundamentally important and accurate one that the Federal Circuit does have to be mindful of the practices of the region from which a case emanates.

MS. DREYFUSS: And I mean, some cases may -- but I mean that still doesn't go to the question of whether the other circuit should be applying Federal Circuit's law when they're doing a patent case. It's different considerations, that's all I'm saying.

MS. GREENE: Anybody else?

(No response.)

MS. GREENE: Okay, I'll just then make one or two very brief comments. First of all, Bob brought up something that here we are, you know, at day 30 of the hearings and you're harkening back to one of the

discussions very early on, on February 27th in the afternoon, actually, and because Bob had a very interesting and valuable exchange with Commissioner Leary, excuse me, during that hearing in which they started to grapple with some of the ways in which patent law versus antitrust law deal with sort of the long-term and the short-term and that type of thing, and it's interesting that it's, you know, sort of -- it arises yet again. I guess just shows that it's a fundamental question that we need to get a handle on.

The other point I wanted to make is Charlie was talking about sort of his sense of what the goals of the hearings are, and I think that one of the things that happens when you have something of this length is that you get perhaps a slightly different snapshot of what's happening, depending on which day or even which session you attend. So I would just sort of harken back to our good old Federal Register notice that talks about how we're focusing on the implications of antitrust and patent law in policy for innovation and other aspects of consumer welfare, and we really are looking at changes -- we are looking to understand, period, and that includes changes short of some sort of radical change, but rather incremental change, or even not necessarily change, just to understand what it is that

we are currently working with.

And last but certainly not least, let me just thank you all so much for having attended today. Absolutely incredible panel. Thank you very much, and I had asked Susan DeSanti, who is our Deputy General Counsel for Policy Studies, what should I say at the end of the session, and her response was, "Stay Tuned." So, in terms of stay tuned, let me just say on behalf of myself and all of my colleagues, Frances at the Department of Justice, thank you all very much.

Lastly, you've heard a lot about public comments on the record, and let me just say, we have a section of our website which is public comments, and all of the presentations people give today will be up on the website, but if any of you have additional papers that you've written that you think you want put in the record, please email them to us, we'll have them up on the web. It's a very effective way to not only get the information to us, but also have it accessible to any of the people who are looking at the hearings.

MR. QUILLEN: And if you know of papers written by others that should be posted on the website, don't be bashful about sending them along either with or without permission.

MS. GREENE: But we'll only post them with

permission. Thank you very much.

(Whereupon, at 4:20 p.m., the hearing was adjourned.)

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

DOCKET/FILE NUMBER: P022101
CASE TITLE: COMPETITION AND INTELLECTUAL PROPERTY LAW AND POLICY IN THE KNOWLEDGE-BASED ECONOMY
HEARING DATE: JULY 11, 2002

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

DATED: 7/15/02

Sally Jo Bowling

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

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

Sara J. Vance