FEDERAL TRADE COMMISSION

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FEDERAL TRADE COMMISSION

In the Public Hearing on:)
COMPETITION AND INTELLECTUAL)
PROPERTY LAW AND POLICY IN)
THE KNOWLEDGE-BASED ECONOMY.)
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October 25, 2002
Room 432
Federal Trade Commission
6th Street and Pennsylvania
Ave., NW

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

WORKSHOP CHAIRPERSONS:

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

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

Panel Members

R. Bhaskar, Senior Research Fellow, Harvard Business School
Scott Chambers, Arnold and Porter, and Adjunct Faculty Member at Georgetown Law Center and The George Washington University Law School
Q. Todd Dickinson, Howrey, Simon, Arnold and White, and Former Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office
James B. Gambrell, Visiting Professor, The University of Texas School of Law
Melvin C. Garner, Darby and Darby, Second Vice President of American Intellectual Property Law Association
Brian Kahin, Visiting Professor and Director, Center for Information Policy, University of Maryland
Jay Kesan, Assistant Professor of Law, University of Illinois College of Law
Jeffrey Kushan, Sidley, Austin, Brown and Wood

Nancy J. Linck, Senior Vice President, General Counsel and Secretary, Guilford Pharmaceuticals and Former Solicitor for the U.S. Patent and Trademark Office

Stephen A. Merrill, Executive Director, Board on Science Technology and Economic Policy, National Research Council/ National Academy Of Sciences

Robert Taylor, Howrey, Simon, Arnold and White

John R. Thomas, Professor of Law, Georgetown University Law Center

P R O C E E D I N G S

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

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

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

MR. DICKINSON: It seems like it.

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

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

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

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

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

Next we have James --

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

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

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

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

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

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

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

Next we have Dr. Nancy Linck, Vice President and

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

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

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

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

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

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

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

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

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

Today we want to address or further address, I

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

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

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

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

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

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

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

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

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

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

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

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

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

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

that holding, they may indeed affect competition in ways that distort the competition or are anti-competitive.

So I presume the overall question here is to say: what can we do to improve the quality of patents and the patent procedures inside the U.S. PTO to minimize the number of patents which might fall in that category?

MS. DESANTI: Yes, and I think, Todd, it would be very helpful if you would start us off. You undertook a number of initiatives when you were heading up the PTO, and I think it would be good for all of us to have that perspective starting off of the many initiatives you've already taken.

So if you could give us some description of that, that would be helpful.

MR. DICKINSON: I won't take complete credit. There are at least three of my former colleagues from the office here on this panel who had an enormous role in that as well, so hopefully they'll all chime in.

The challenge of quality management inside the office has several components, I think. One is measuring, and what the metrics are, that the office and others can use to determine the level of quality that's being achieved. There is a very elaborate quality control mechanism inside the office that's been in place for

some time.

It has been reviewed many times, Inspector General of the Department of Commerce has looked at it a number of times. It comes in for its fair share of criticism, but there is a formal and traditional mechanism. But, because of concerns that were raised, particularly in some very high profile evolving areas, such as business method patents, we undertook initiatives to improve the quality very specifically in those areas.

I don't think it necessarily means that some are better than others, but the particular initiative which has gotten a lot of visibility is the so-called second review or the second set of eyes, where an additional senior level examiner reviews the examination of patents in class 705 where a number, if not most of the business method patents reside. And it's been, I think, enough of a success that my successor, Under Secretary Rogan, has indicated that he would like to expand that program, and I think that would be a particularly good initiative.

It points out the other big challenge in quality management, which is resource allocation. The office has been traditionally strapped for resources. The fees which it derives are ones which are calibrated to the

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

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

MS. GREENE: Mel?

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

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

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

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

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

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

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

improving quality, but at a very high price.

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

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

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

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

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

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

Thank you.

MS. GREENE: Jim?

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

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

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

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

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

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

MS. GREENE: Jon?

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

So I think Mel makes a very good point, that

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

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

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

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

potentially serious economic problem.

MS. GREENE: Jeff?

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

MS. GREENE: You could have been first.

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

MS. GREENE: We were waiting.

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

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

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

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

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

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

Now, as far as the impact, I mean, it's not little companies that have pain and suffering when you get hit with an invalid patent. Big companies hate them too, and it's a bigger risk for a bigger company because you have a bigger financial exposure.

Threshold many companies see, especially once they get to a certain size, for harassment by an invalid patent is much greater than with respect to the threshold of pain that can be inflicted on a small company because there's a lot more money a big company

has. So I wouldn't diminish the negative effect of invalid patents on big companies versus little companies. I mean, it's felt everywhere.

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

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

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

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

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

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

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

valid patents.

The easy calls should go back to the patent office, and there should be a procedure which doesn't punish and just totally tilt the scales against the party challenging the patent, which is what we have in our system now -- so to get the ball rolling.

MS. GREENE: Jay.

MR. KESAN: Just a couple additional points. I think at the outset, we don't have good empirical data on the social costs of bad patents. It's not something that we have a lot of empirical insight on.

Nevertheless, I think there are a number of social costs of bad patents that have been mentioned, and they can be significant. When I sort of look at bad patents, to me the concern is not so much the ridiculous bad patents that you can simply turn around and say, sue me, I'm not going to give you a dime.

The real issue is overbroad claims. To me, the issue is granting claims commensurate with exactly what was invented, and that's where the real anti-competitive effect comes in.

If I invent a bucket with a handle and a spout, as long as I can get a claim on the bucket itself, that's fine. If there's no prior art, that's fine, there's nothing wrong with that. But if the bucket is

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

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

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

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

Even then if you do have a kind of transaction,

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

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

As far as, should we even have a patent system or not, it seems to me that when you're dealing with high tech, you're dealing with a very basic economic reality, and that is that you have very high fixed costs and very low variable costs. It costs a lot of money to produce the first pill of something. It costs a lot of money to produce the very first CD of Windows 2000 and it costs two bucks to produce the next CD.

As long as you have that kind of economics, someone has got to pay for that first CD, and I don't think anybody is sort of arguing about that. We can sort of say, well, there's other ways of paying for it, we don't need a patent system. There are other ways

of paying for it, but perhaps this is a situation where we have path dependence, where basically everyone is driving on one side of the road, and it doesn't matter. No one is going to change now at this point. It's very costly to change.

I'll leave it at that.

MS. GREENE: Okay. A lot of additional ideas have been added to the table. This concept of sort of localized knowledge and how you make sure the proper knowledge gets to the PTO I think was underlying, in part, what you're saying. So one of the things I want to throw out is: do the current procedures secure adequate access to the materials necessary to examine patent applications? One of the questions that's often raised is prior art. There are lots of proposals currently floating about addressing prior art issues. So let me add that to the mix and now turn to Scott.

MR. CHAMBERS: Well, I was going to mention just for a moment some of the things that Jay brought up, and talking about broad claims, it's often true that when you are facing a patent, you're going to say that the claims in that particular patent are far too broad, but in fact the system usually works out quite well in limiting those claims.

The way it works out is that the examiner is

generally charged with taking the broadest reasonable interpretation of the claims, and when they are an experienced examiner, they can come up with some pretty broad interpretations that pull in art that clearly forces the limitation of the claim, and that limitation then provides a prosecution history.

So I'm not so sure that the system doesn't permit, or doesn't have within it the ability to deal with these broad claims, provided you have an experienced examining core.

In terms of the localized knowledge, that does seem to be a problem in certain areas, especially when you're expanding in an area that has not seen patents in quite a long time, or never saw them, such as when they started to issue patents in the software area. There was not very much patent literature in that area, and for a patent office that's used to dealing with patents, it's very hard to go into periodicals sometimes and get that kind of information.

When that issue originally came up, I think we were actually faced with a number of problems. Some of the institutions or some of the companies were willing to provide us with databases or willing to provide us with information, but we couldn't promise to secure that information from FOIA, so that if they were going to

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

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

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

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

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

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

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

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

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

you paid special attention to that.

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

MS. GREENE: Steve?

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

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

in the past.

MS. GREENE: Bob?

MR. TAYLOR: One way of looking at the patent system, looking at patents as a whole, is that what they really are is simply the legal recording of property rights based on investments in technology that have been previously made.

The patent isn't the property as much as it is just a recordation of the property. And when I hear remarks like Steve just made, commenting on the fact that the agency in recent years has, in fact, become more user friendly for the patent owner, I think that's probably true. But, I also think that that's a natural outgrowth of what has gone on for the last 25 years, and that's that we came to a realization somewhere in the mid 70s and early 80s that the patent system might be important, that the fact that other countries were achieving technological superiority in areas where the United States had been dominant for years and years and years, and much of it being done using technology developed in the United States, we began to take a hard look at the importance of this whole system.

I don't think it's a fair comparison to look at the cost of getting a patent and compare it to the cost of litigation and say, therefore, the system is out-of-whack.

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

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

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

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

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

MS. GREENE: Bhaskar?

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

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

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

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

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

What is a good patent?

MS. GREENE: Jeff?

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

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

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

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

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

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

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

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

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

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

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

growth, recognizing the expense of that, the other side of that, is an injury to competition.

The antitrust principle for years was how little or how much do we have to give to an intellectual property right in order to bring forth that invention and that development. And I think the emphasis has shifted now to believing intellectual property is a desirable result in its own right, and we quit looking at: what do you have to give in order to bring it out?

It's a hard choice, of course, because after the fact, we're looking at existing inventions, and they're not going to be affected by any policy we set out, but we're trying to judge on that basis what to do for the future.

Now, I personally think that the patent office, in general, does a pretty good job if they have the best art, and in fact one of the insanities of our patent system is we give deference to patents because they're not ever invalid, even if the best art wasn't in front of the patent office. And how an examiner can make an intelligent decision with one hand tied behind him is hard to imagine.

Yet the courts continue to say there is a presumption of a validity, clear and convincing evidence, and what that tells a jury is, man, this is

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

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

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

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

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

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

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

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

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

MS. GREENE: Thank you. Mel?

MR. GARNER: The first thing I want to say is that those brilliant comments were from Professor Gambrell and not from me, just so the record is clear.

Actually so many interesting points have been made that I sort of have a little short laundry list of comments I want to make. One of them is actually to Jonathan because he said something that I've heard a lot of economists say, and I don't know that it's right or wrong, but I want to provoke a thought about it.

That is, the point that an invalid patent somehow prevents the development in an industry. I think that if you parse that concept, if that were true, then any patent would prevent the development of a particular area of commerce. And I think that the experience that we've had over the last 200 years is that that doesn't happen.

I'll give you an example from my own life, I take blood pressure medicine. Surely somebody was the first to invent a blood pressure medication. That didn't stop the development of blood pressure medications. What it did is provoke other people to find other ways of accomplishing that function, and the end result is that there's now

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

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

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

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

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

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

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

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

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

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

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

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

adjust to changing conditions.

MS. GREENE: Thank you. Todd.

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

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

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

debated within the IP community at the moment, and there's a fair amount of skepticism, but I think that will be another interesting piece to see how it plays out.

Another issue -- it kind of plays off of what Jay said, Professor Kesan said a little awhile ago -- is the lack of empirical studies, external studies, of quality measures. There is sort of a presumption, I think, that patent quality is, I think someone used the word deteriorating earlier, that sort of thing. I don't know whether that's the case or not.

On the one hand I'm worried that it might be. On the other hand, I'm worried that we're infected by what you might call the "good-old-day syndrome", that everything was always better in the good-old-days and things are not so good today. And there's, at the moment, not a lot of good studies to determine empirically, whether there is actually a fall off in quality or not. It's mostly anecdotal. It doesn't mean that all that anecdotal art can't collectively add up to something.

I want to address a few more mechanisms which the office has or is attempting to deal with this quality issue and putting it in place, but again the constraints that effect it. We had, when I was there, a very elaborate reengineering project which was an attempt to try to

reengineer how the process actually worked from the ground up.

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

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

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

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

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

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

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

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

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

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

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

draft.

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

MS. GREENE: Thank you. Bob?

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

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

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

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

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

I think any other effort to pour more resources into patent quality that's not going to have any economic importance is probably going to be wasted money.

I would also like to address this Rule 56 question because one of the questions I know that is on the agenda for today, and perhaps for later sessions, has to do with this notion of imposing upon an applicant a burden to go out and do additional searching beyond

what's already done.

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

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

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

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

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

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

MR. COHEN: Okay.

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

MS. GREENE: Nancy?

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

I think Rule 56 gets in the way frankly. I

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

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

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

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

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

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

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

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

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

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

MR. DICKINSON: You need a mic, Jay.

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

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

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

The basic assumption of our patent system is, and I think Mr. Garner's exactly right, there are costs and benefits to every patent that is issued. When you have a patent that is issued, you certainly have opportunities: you create incentives to design around, you certainly create disincentives also for downstream innovations, and economists understand this.

Economists understand that when you have a patent on something, you have reduced a cost of producing whatever it is; people who are dying are now living, and so on and so forth. So there is an increase

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

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

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

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

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

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

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

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

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

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

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

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

So to me, when we're talking about: is the patent office in the know? Does the patent office have access to prior art and so on? To me the real issue is, does it have access to knowledge? Just simply saying I have more databases, et cetera, doesn't necessarily help. In 1982 the University of Michigan developed this huge project to set up this software database, and it's just languishing, and no one really uses a heck of a lot of that.

To me, when we're talking about IDS and we're talking about prior art disclosures, I think we have to look at it in the context of two things that go on. One is, there is solid empirical information now available that says that your patent is basically bulletproof against any piece of prior art that is listed in a PTO form 1449.

Every patent attorney I know encourages the inventor to submit everything, turn everything over. Why? Because when you get that little signature on that form district court judges absolutely think, well the patent office is considering this so there's nothing new about this, why should I invalidate the patent based on this?

As a matter of fact, in the latest data that was published by John Allison and Mark Lemley, their numbers

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

So to me, that is the critical question, and so if we're going to have that kind of deference, if we're going to have that kind of treatment to a bunch of references that are listed, and indeed there's every incentive to list 200 of them, then are we going to ask the question: what is in those references? Has that really been imbibed by the examiner? Aren't we better off with a system where we say, listen, there's only six prior art references here that are really on point with respect to the claims at issue?

If we describe those six prior art references properly, then it's perfectly okay to defer to that. So to me I think we can go two ways, one is we can have expanded disclosure, and then we can have various kinds of deference to that, and that makes sense.

Otherwise, we just simply stop this charade, where we have a whole bunch of references that are tossed over the fence, and simply we're told that we have to defer to that in litigation. Let's agree that what is done is just a list that's put out there, and so let's not have any kind of presumptions or let's not have any kind of deference to that.

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

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

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

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

As Jay said, it's fine to have something when it's described properly. Well, what's proper when I am quickly reading through a reference and trying to tell the examiner what it's all about? And what is proper

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

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

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

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

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

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

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

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

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

While Nancy Linck was Solicitor at the patent office, they tried or they came up with the idea of recording interviews, which is often a concern for prosecution history. There seemed to be very little interest or very little support for that within the Patent and Trademark Office, as well as very little support with the Patent and Trademark Office's customers.

I think part of the reason is there are two types of attorneys in this patent business. There are litigation attorneys, and there are prosecution attorneys. Prosecution attorneys do their best work when they get patents, and if you're going to record the interview, you may well interrupt some of that give-and-take that goes on for obtaining a patent.

That might be a good idea, at least we would know what was said. But for right now, there are costs considerations, especially with money being diverted from the PTO, that would preclude any kind of recording of the interviews, and there's an unwillingness on the part of the agency, as well as those who prosecute, to have what they are willing to say and communicate to each other preserved forever.

MS. GREENE: Jim?

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

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

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

seems to me it ought to be required.

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

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

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

in the background.

I wish that were true. Gosh, I wish it were true, but let me tell you, I've been involved in a lot of lawsuits, both as a litigator and as an expert witness, and I'm afraid my colleagues are not always honest. And indeed, where they lack honesty, inventors and corporate executives lack even more honesty.

The fact is that, sad to say, a lot of people will misrepresent if they can get away with it. If we eliminated Rule 56, that would be the most disastrous thing to the patent system that I can imagine.

To bring it into disrepute, I think what Nancy wants to do is give the inventor the blank check. I don't believe that all inventors are honest, and I think that a lot of the litigation that has occurred involving important inventions indicate that people that are researchers at universities can be just as dishonest as anybody else if there's money on the other end of the line, and unfortunately lawyers are no different.

We want to win for our clients, and there are a lot of lawyers that cut corners and will do dishonest things if they think they can get away with it. We are amazed now at the problems in the accounting industry. I'm not surprised. When big money is involved it's very difficult to expect everybody to be honest when they do

it.

MS. GREENE: Right.

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

MS. GREENE: Thank you. Mel.

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

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

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

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

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

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

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

One of the things that is a possible thought is

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

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

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

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

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

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

make corrections that will take care of that.

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

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

MS. GREENE: Quickly to Jeff, and then after Jeff comments on this whole round of discussion, we'll switch to re-examine and post-grant review.

MR. KUSHAN: I wanted to touch on this scenario of too many references coming in and actually getting to an efficient way of getting to the references that should be considered by the examiner, in front of the examiner.

I think people have recognized that there are some unintended consequences of Rule 56, but overall it is providing the right kind of impetus to disclose. We want a system where there's going to be a forthcoming approach to engagement with the examiner about prosecution, during prosecution.

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

There's always going to be, I think, in our system that potential for unenforceability findings by the court, and that's a healthy impetus for disclosure. I think the challenge is that we know for a fact that with the standard in a conservative interpretation of standard, patent applicants are going to put more information in than less.

We also know, as people have clearly pointed out, that when an attorney is asked to characterize something on day one during the middle of a prosecution, that is going to be -- you know $20 million later -- is going to be a very different story.

And given that cost, it doesn't really add that much value to the examiner's ability to find the one reference that if he reads the reference, he'll understand why that should be read.

The third variable I think we should appreciate is that when we have rules that say to the applicant,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also put a rule in, over the very strong objection of the bar, that allows just for what Jeff was mentioning, namely, that the examiner now has the opportunity, an increased opportunity, to turn the question around on the applicant and inquire of the applicant why they did something, is there more art that they're aware of, to make a more advocative process. I don't know whether that's being used more or not, and it would be valuable I think for you to study whether --

MR. KUSHAN: No time credit.

MR. DICKINSON: That's a good point. The examiners don't get time credit, which will lead to my third and final point.

If you want to do one thing to enhance quality, get examiners additional time, that's 13 to 15 million dollars per hour. Somebody has to come up with that money.

MS. GREENE: Okay. Great. We're nominally falling behind schedule, but the information's too good basically to speed it up, so let's proceed now into the re-examination/post-grant review. Having spoken to a lot of you beforehand, I know there are lots of folks

chomping to get at these issues.

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

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

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

MS. GREENE: Oh, absolutely.

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

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

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

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

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

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

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

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

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

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

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

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

MS. GREENE: I didn't hear that.

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

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

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

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

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

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

Then we need to give that system a chance to work. My company certainly will use it, probably will use it now with the appeal right and Portola Packaging overruled, but the removal of the estoppel provision would really help.

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

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

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

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

Thank you.

MS. GREENE: Thank you. Jay?

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

We've got these disclosure rules. We've got all these other rules because we admit that there is an information asymmetry. The patentee does know more than the examiner, so the next question to ask is, if we don't like the kind of disclosures we get from the patentee because we think it's too burdensome, because we think attorneys are going to spend time having these disclosures, so on and so forth, then we need to sort of think about who are the other people who are similarly situated like the patentee? And they are third parties, who are probably working in the same field. So it makes eminent sense to have some kind of re-examination or opposition system.

And of course the 21st Century Strategic Plan focuses on that. To me, there are really a couple of other things going on here, and that is if you look

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

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

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

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

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

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

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

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

preserve a lot of these opportunities to review these options in court.

MS. GREENE: Well, you've both put lots more on the table, and to sort of flag things that are of particular interest to us are: what are the competitive consequences of the system, both as they exist, as they are proposed in terms of reform?

And you've all sort of introduced ideas of broadening the topics that would be available for consideration. You've also mentioned questions of changing time limitations and also questions of who the decision makers are, so with that, let me just continue.

Todd?

MR. DICKINSON: Well, I think the answer to the competitive question is that by the kinds of enhancements to the re-exam system, and I'll include opposition in that too in the general topic, you will provide the opportunity I think very much more efficiently and effectively for competitors to interact with that process than they can now.

So you will, I presume, if you improve the re-examine/opposition system, you'll improve competition because there will be a mechanism available to improve also the quality of patents that issue, which is, I think

also by extension, obviously a very good thing.

A couple of points. What's the break on that now? That seems like such a no brainer, and we'll probably get a generalized agreement around the table here, I'm almost certain, that enhancing that system, improving that system is a good thing.

There's actually a very strong political wind that blows against that. When various of the enhancements and improvements that Nancy was speaking to were before Congress, several Congresses in a row recently, it was a very strong movement against that, particularly from the independent inventor community, and I think it's important to understand why that was there.

They are very concerned -- and I'm very close to that community -- that that system, whatever the system is, will be used by large entities to basically impede their ability to use their patents. They'll be tied up, there will be abuses, and they won't be able to effectively fight that.

I don't think we need to debate, though it would be interesting, a lot of the nuances of these various proposals today, but I think whatever system for enhancements proposed needs to account for that particular issue, and some of them do.

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

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

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

There are also some other options that should

perhaps be considered. One judge on the CAFC, Judge Newman, has proposed that, as a counterweight to litigation, we move to something similar to the Japanese system where, if validity is an issue, and in almost every case validity and infringement are issues, but the validity piece of that litigation should come back to the patent office and that the validity should be determined in the office first before the Federal Courts deal with that issue.

Now, that's controversial I think in some ways because people say, well, the office has not necessarily proven itself capable of doing a lot of things, so why should we have such an important thing now be in the office?

I think that can be addressed, again, through resources, through trained judges. We have plenty of examples where administrative judges take testimony, hear evidence and make those kind of decisions every day in other agencies. I think they could do it in this case too potentially.

We need to really start -- I would certainly disagree with Nancy -- we need to expand the grounds for re-examination. That is its own political challenge. I tried to get a rule in, a very simple modification of the rule, that would allow a commissioner to order

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

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

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

Just some comments.

MS. GREENE: Jonathan?

MR. LEVIN: First I'll just say that I agree very much with what Jay and Todd said about the positive effects as it relates to disclosure, that having some kind of expanded opposition system or re-examination seems to allow parties who really do have precisely the right motivation to bring forth prior art, to do so in an expedited way. So that seems like a very good market-based approach to the production of information or knowledge to enhance the patent office.

I've done some research on patent oppositions over

the last year, and one of the things that has come out of that research was that to capture significant economic welfare gains from an opposition system, it's really important to keep the costs low. And it's quite intuitive why that would be the case because, first of all, if the costs are high, people won't use them, and if the costs are sort of low enough that people will use them but still high, you're just going to be creating a lot of new oppositions that are going to lead to a lot of new costs.

You should think about the costs broadly in the sort of broadest economic sense of cost, not just the actual financial costs of going through the process, but the delay costs and the sort of dragging out of hearings. For example, the European system -- their current system, it takes quite a long time to get through the opposition process, about three years on average. So we might be weary of introducing that opposition system in the U.S. that would introduce that kind of delay into the application system.

It strikes me that a lot of the specific proposals that Todd was maybe talking about that are in the Strategic Plan have to do with precisely this trade-off of keeping costs down versus providing a more thorough system. So I'm interested to hear what a lot of you have to say who have had more hands-on experience

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

The last thing, just to follow-up on Nancy and Jay's point about putting a limit on the length of time, and I'll just mention one reason why it might make sense to have a limited length of time, although I'm not sure that I think this is a compelling reason to limit the length of time, which is that if you do have a deadline, although some firms might miss the deadline to file an opposition and then sort of miss their window of opportunity, you then do provide a strong motivation for firms that are aware of the patent, and I know they want to launch an opposition, to do it soon.

Then you capture one of the main benefits, economic benefits, of the opposition which is to resolve uncertainties sooner and clarify emerging areas of technology where standards of patentability and exactly what's patentable or not is unclear. So that would be

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

MS. GREENE: Steve?

MR. MERRILL: Well, first of all, a point of information to anyone that's of interest. The academy project that I direct has commissioned I think the first serious comparison of re-examination in the United States and opposition in Europe with a great deal of empirical data, so it's available on our web site. It's not in final form, but it's close to final, so if anyone is interested, I would be happy to give the reference to it. It was done by a group at Berkeley and one in Munich.

It, among other things, shows that the European opposition system has not been subject to the fears or concerns of the independent inventor community in the United States. Now, I don't necessarily think that's going to be convincing to them, but it does show that small entities have fared as well as large entities in European oppositions.

However, one very significant problem with European oppositions has been the length of time it takes, and there appear to be no firm and hard time limits in any of the process of European opposition, and if they're going to take as long as Jonathan implied, if they're going to take as long as litigation would, then

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

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

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

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

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

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

I think you asked first about enhanced re-exam

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MR. DICKINSON: Budgeted for 150 per year.

DR. LINCK: Starting in?

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

MS. GREENE: Jeff?

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

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

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

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

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

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

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

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

than juries in courts could do. And in that sense, you kind of look at the things that PTO examiners do very well or the PTO knows how to do well, that's not the entire scope of issues that are relevant in a patent case. All these issues -- unenforceability, certainly not, subjective inquires on best mode, PTO doesn't check best mode unless it's so blatant that you can't miss it, so best mode shouldn't be in there, Rule 56, why would you even -- I mean, these are things which the PTO -- are not mainstream examiner issues. Obviousness, novelty, written description, enablement, that's what you should have post-grant.

I'm not all together a fan of utility because utility ultimately is a yes/no question, and most of the utility issues that are going to be impacting on the claim scope are going to be properly raised under 112.

MR. DICKINSON: You have your bio hat on when you say that.

MR. KUSHAN: Yes, I do.

DR. LINCK: Besides if it's not useful, it doesn't have any value anyway.

MR. KUSHAN: Right. Just in terms of hitting the mainstream issues that are going to deliver some benefit, I think you have to focus the challenge procedure on those four main issues.

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

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

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

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

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

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

MR. LEVIN: Thanks for clarifying.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If you're going to have procedures that have

those options available, discovery and oral witnesses, you're going to start to lose the distinction between litigation in a federal court and litigation before the PTO. And so I get to the point where Nancy is, if you look at all these complex variables, the thing that seems to be the best thing to do now is to take the re-exam system, remove the estoppel effect, or make it a natural estoppel -- what you get just by saying things to an agency and then going into court and trying to say something different -- but take that, fix it, give it 112 authority and get that thing through.

Then if we see the extra 180 million dollars that we need to run an opposition unit coming out of the Congress, and this is where I'll put on my cynical hat, if we get that out of the Justice Department, if we take it away from embassy security and we get that $180 million instead of them, then we can think about funding a real opposition group.

Let's be practical, we're stuck in Commerce, State, Justice, Appropriations, we're stuck in their camp. If we get the money, they don't. So that's not insignificant as far as a political burden.

MS. GREENE: Thank you. Jim?

MR. GAMBRELL: I have two or three comments. They're fairly short. I think we're talking about

oppositions and re-examinations to the point where they're going to be more expensive than litigation, and they're not going to solve half the problems that are needed to be solved in terms of ultimately deciding whether the patent is valid, infringed, not inequitably obtained and their damages awarded and so forth.

I think if we're going to be cosmetic, I'm seriously of the view that re-examination is an expensive tool which does not work very well, and we might just as well leave it to the courts.

What it does more than anything else is allows a patentee to have two opportunities to refine the scope of his claims, and as a result, he will not lose them in litigation since he has revived them. He's had another office action, as it were, another chance to amend them and strengthen them and all to the disadvantage of requiring him to be careful the first time, to be sure they cover only what he has claimed and what he can support.

The biggest question, it seems to me a problem here, is that we don't have disclosure as to what happens in litigation. The tendency of all courts to put secrecy orders on the results of litigation so that the public doesn't have the benefit of knowing what happened really and what documents were available and so

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

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

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

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

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

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

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

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

MS. GREENE: Mel?

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

in a re-examination.

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

To the extent you migrate the process into an opposition that looks very much like a litigation, you're going to bring in litigators. You're going to bring in the top gun litigators to do this, and it's going to cost just as much as a litigation. I've seen it similarly in arbitrations, where arbitration is supposed to save you money, but when you bring the litigators in, it costs just as much as regular litigation.

The other thing is that the trier of fact will be better. If you have a re-exam being conducted by examiners in the patent office as the judges, they already have a technical background. They already have experience in exactly this field, and the issues will be refined. You don't have to teach them the technology the way you would a judge or a jury. You would simply get right to the issues, and it's likely that the

process will be faster.

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

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

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

MR. KUSHAN: That's what we agree with. The issues that are actually presented and addressed in the proceeding obviously should create and will create an estoppel. I think the concern has been raised or could have raised as the standard, and there are a lot of issues that you will elect not to present to the PTO because you know that they will require some explanation beyond what's in the reference. And so that's the line we were drawing.

MR. GARNER: I think if the estoppel applies to the kind of subject maybe that Jeff has limited, then that would be fine, and you should be able to withdraw your re-examination request up to the point where someone comes down with a decision. But, if it's limited to those issues which are fairly being contested and you get a decision, then either you appeal or you take the estoppel. That's my view.

MS. GREENE: Let's just run through the people that are left very, very quickly because this will cut into the lunch time that you all have. I don't know. Does that count or not?

Bhaskar?

MR. BHASKAR: I've been hearing a lot of discussions about patents processing in the patent office, and it seems to me that the question of what is

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

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

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

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

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

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

MS. GREENE: Bob?

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

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

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

The reason the system isn't used more today than it is I suspect is going to hold true, even if you make changes regarding the estoppel effect. There is an estoppel effect when you start a re-examination proceeding because you've taken a step to challenge the bona fides of a patent, and whatever the particular legal rules are, it carries a factual implication that is unique to the defendant.

So defendants perceive there to be an estoppel effect, and unless you actually enacted a law that said that is inadmissible into evidence, somehow it's going to get before the judge or before the trier of fact, so that effect is there no matter what the statute might say or no matter what the rules of the patent office might say.

There's another aspect of this too. There are factual tensions between the position that a patent owner will take with respect to defending against a claim of obviousness and defending against a claim of enablement or best mode. In both cases they're being forced to take a position with respect to what others of ordinary skill at the time the patent application was filed might have known or been able to do or would have

construed to be inherent in a particular description.

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

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

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

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

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

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

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

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

carefully.

MS. GREENE: Thank you.

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

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

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

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

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

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

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

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

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

AFTERNOON SESSION

(Resumed at 2:00 p.m.)

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

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

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

grant review. We had two more folks that wanted to make points, and they both swore to me they wrote them down and can make them now.

Let's start off with Jay. I know we're picking up sort of cold.

(Discussion off the record.)

MR. KESAN: This comment was animated by several points that were made by various people. It's really important to decide, a priori, what is the purpose of a revocation system, and I've used the word revocation as an umbrella term for re-exam, opposition, all those things.

If the purpose of a revocation system is to improve examination and to fix errors and to better inform the patent office so that you end up with patents that are commensurate with innovation, then that automatically means that you have one kind of revocation system.

If you're sort of on the other extreme, if you're looking for an alternative to district court litigation or it's going to become a sort of an ITC type of model, I think, at least in my view, that doesn't make sense. It doesn't make sense to have a whole lot of discovery hearings and so on, and you have to think about institutional competency. And here it seems it makes sense to me that you focus on 102, 103 issues, and even 112. I'm

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

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

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

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

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

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

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

MS. GREENE: Thank you. Steve?

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

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

MS. GREENE: Brian?

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

MS. GREENE: As penance. No, kidding. Thank you, Brian.

MR. KAHIN: This is reward enough.

MS. GREENE: It is a reward, thank you. Of course.

MR. KAHIN: I want to say I was struck by how process-focused the discussion was and that there was really no suggestion that we try to calibrate how big a problem do we have here. And I want to pick up on testimony that the IPO presented back last spring in which they suggested that it would be worthwhile to track changes and the confidence level of specific industries in the validity of patents granted as indicated by poles conducted by the PTO or an independent organization.

That raises I think some very important issues. It may result in some information that, in fact, empirical economists already believe, that patents impact different industries very differently. And, of course, this gets us into the problems of questions of fine tuning, but my own feeling about the quality problem is that it's a lot worse in software and business methods and it's probably pretty good in pharmaceuticals, and that's why Nancy Linck is pretty happy with things.

Then I also wanted to add, I was very intrigued

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

I'm all for that because I think the nondiscrimination provision in TRIPS which is, of course, nondiscrimination against technology, not people, is profoundly misguided because it discourages empirical understanding of how the patent system actually works.

MS. GREENE: Anybody want to respond? Yes, Mel?

MR. GARNER: Thank you. The way that the system adapted was not by ignoring TRIPS, but by looking at the underlying science. Computer code was created by human beings to run in machines created by human beings, so we understand very well what a series of code is going to do in a particular machine. That's why you don't have to put the code in your patent application because the patent office is smart enough to understand that.

When it comes to DNA, we didn't create it, and the thing it runs in we didn't create either, and the level of certainty about what's going to happen is very small, so in response the patent office makes you put in details about that DNA sequence to make up for the fact that people don't understand it.

So what I'm saying is that the fact that the PTO understands the technology and the law allows them to make these kind of fine distinctions that is probably best made at that level, as opposed to some external source coming in and saying that we're going to treat all things differently in some particular way.

MS. GREENE: Yes?

MR. DICKINSON: A brief follow-up comment on what Brian said. I have thought a lot about this and have spoken about it because it is one of the bigger tensions I think in the area, and I think a lot of what Brian said about the need to differentiate, or the possible need to differentiate among technologies, is a rationale discussion point.

The challenge I think, at the end of the day, is balancing that off with where you do draw those lines. What is a software patent as opposed to a manufacturing process patent as opposed to something else? How do you put them in the categories to get the differentiation? And I'm not sure anyone has come up with a particularly compelling way to do that yet necessarily. That doesn't mean it can't be done.

How do you deal with the political issue in the United States, for example, that say someone becomes Chairman of the Senate Judiciary Committee who happens

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

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

MS. GREENE: Scott?

MR. CHAMBERS: I was going to say that, yeah, I agree with Todd that it's almost impossible to draw lines in that you don't really understand where a particular invention is going to be developed until much later. So drawing the lines has to be done at the time of filing, and this decision as to what its scope, is going to wait until it's actually been litigated.

I think that the reason there's a difference between the way the patent office treats software and the way the patent office treats sequences is that doesn't come down to some conscious choice by the Patent and Trademark Office. Software is very difficult to search. You can't search it very effectively, even if you have that particular code, because there are a lot of different ways you can do it, whereas when the office started to get into biotechnology, searching methods were available and they were pretty straightforward.

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

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

MS. GREENE: Mel?

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

Just a little bit aside, I think the professor

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

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

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

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

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

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

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

best do we use it, wheelbarrows or recombinant DNA?

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

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

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

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

If you can't, you're not going to waste money on a patent, and if the patent, for example, in the software area takes five years to get, and a lot of things have a cycle time of less than five years, you get a lot of frustrated inventors who can't use the patent system for that purpose.

But beautifully, in the system itself, if the

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

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

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

MR. DICKINSON: That thousand year term, by the

way, is copyright, not patents.

MS. GREENE: Brian?

MR. KAHIN: Picking up on another item from this morning, but which sort of builds on what Jeff said as well, I have a lot of problems with this mythical notion that patents are actually transferring knowledge out into the public and away from trade secrets, and again I think this is something that varies from technology to technology.

I think it probably works fairly well in pharmaceuticals and probably works pretty miserably in software. You heard Bradford Friedman testify the information that comes out of the system is so bad for software that you can't even use it for competitive intelligence, let alone informed technology.

Then looking at this very interesting 13 to 15 million dollar an hour, I think that was your figure Jeff or Todd, what do you get for that? If you put in an extra hour on average into the patents, how many bad patents do you knock out? I would also suspect that varies considerably from industry to industry.

The depth of determinacy that you get in software because of the prior art issues we talked about is probably pretty great compared to pharmaceuticals.

MR. DICKINSON: I'm not sure it's necessarily a

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

MR. KAHIN: Well, you do both.

MR. DICKINSON: That's true.

MS. GREENE: Jon.

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

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

economist, on your point.

MR. DICKINSON: But you're not an empirical economist.

MR. KAHIN: I'm sometimes an empirical economist, so.....

MS. GREENE: With regard to the role that economic analysis can play in terms of informing either the broader principles or specific applications, we're going to turn to that towards the end of the program, but now let's quickly jump in to the next topic, which is litigation.

In keeping with the approach that we've taken previously, I just want to throw out three facts and then have you all explain sort of what the practical effect of them is. Also, there's lots of proposed changes to the system, et cetera, swirling around, and I'm just curious as to what you think about them, particularly in terms of what the competitive implications of the different changes would be.

The first one is one we talked about a fair amount this morning, which is a presumption of validity.

The second one is the clear and convincing evidence standard, and the third one is the treble damage award available for willful infringement.

Mel?

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

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

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

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

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

MS. GREENE: Jay?

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

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

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

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

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

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

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

So the fact is that since they have to pay not

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

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

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

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

Others are scared off of launching products.

For example, we have a Hatch-Waxman Act with a 30-month FDA exclusivity period, and of course that's been subject to a lot of debate right now about whether there should be just one period of FDA 30-month stay or whether there ought to be multiple ones.

I don't think it really matters. The fact is few generics launch after the 30 months even though they're entitled to do so because they're afraid of willful infringement of damages.

I think their fears are overstated quite frankly. I think their legal analysis is not always that well put, but the extent that we believe them and the extent that we think we're losing the management competition because of this effect, again I think it's a poor policy.

MS. GREENE: Jeff jumped the cue because you were already going towards the question of the disclosure and the impact. Go ahead.

MR. KUSHAN: I look at the justification for the presumption of validity maybe a little bit differently. In my mind the presumption is there on the premise that you have done an examination. It would make sense in our system, if we were more of a registration system, to not attach that type of presumption.

I know in other regimes you don't see this type

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

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

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

The presumption is one deterrent to patent infringement, and obviously the willfulness theory has always been out there and is traditionally justified as being a deterring infringement.

We want the public to not infringe patents while they're in force; a valid patent, you don't want infringements, so you have these measures which scare

people away from infringement.

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

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

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

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

MR. DICKINSON: What do you think of these additional questions here though, Jeff, about whether you could parse it a little, that you give the presumption only when it's gone through re-exam, there are additional disclosures, a period of time has passed?

MR. KUSHAN: Well, I guess we're stealing their --

MR. DICKINSON: She told us to ask questions.

MS. GREENE: No, thanks for helping. So your question, let me just back up. So, Todd, you were basically asking about whether or not we should limit the presumption if you've had some sort of heightened disclosure requirement or some post-grant review or something like that?

MR. DICKINSON: Certainly an incentive to use those procedures even more.

MR. KUSHAN: But at the same time, that's not fair to the patent that went through and had a thorough examination and has no question of validity, which is going to be the other 300,000 patents.

MR. DICKINSON: That's an answer. What about the passage of time question?

MR. KUSHAN: Passage in time, I mean people can see -- what was that, the in-line skate didn't really hit

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

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

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

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

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

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

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

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

MS. GREENE: Jay?

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

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

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

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

MS. GREENE: Scott?

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

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

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

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

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

MS. GREENE: James?

MR. GAMBRELL: There have been a number of

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

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

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

I think on the treble damages, I tend to take a middle ground I suppose. I think there are two filters on getting treble damages for willful infringement. Not only do you have to get the jury or the district court to hold willfulness, but then they exercise their discretion as to whether or not they're going to award treble damages.

And then you go to the next filter, which is the Federal Circuit, and frequently they don't agree with

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

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

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

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

It's true that patents may not be harmful if

they're issued and never get infringed, but there's a lot of cases where patents of very great unimportance are asserted against individuals, and realistically a lawyer is going to tell his client, look, it's better to pay 10 or 15 or $20,000, than to embark on the defense of a lawsuit, even though you think you can win it hands down, because your chances of getting attorneys fees are very slight. It has to be a major, major infraction by a patentee before a defendant will ever get attorney fees.

So it seems to me that presumption of validity ought to be certainly eliminated in most cases, why the judge should reach any different decision than give consideration to the fact that the examiners have allowed this patent to issue, but let them make a judgment on a preponderance as to whether or not it is or is not.

Juries particularly don't understand it when you tell them there's a clear and convincing level of proof, even though you add to that point, well, of course if the material wasn't before the office, you can come and vitiate that requirement a little more easily.

That's a nuance that most jurors don't understand, and I've interviewed a lot of juries after they've come to a decision, and uniformly, they don't

understand that. They see the seal on the patent, they hear clear and convincing, and their likelihood of going for the defendant is much slighter than it is for the patentee, even though, in fact, logic would tell you that as frequently, they ought to go for the defendant as for the plaintiff. I think the field should be a little more level particularly, at least, where the best art hasn't been presented in the patent office.

The best way to do that is to free the jury or free the judge to make an informed decision giving consideration to the fact that examiners came to this conclusion, but not being denominated or nominated to require clear and convincing evidence because that sounds like something very close to criminal responsibility when a jury hears it, and even to a judge, they tend to defer to it more.

MS. GREENE: Nancy?

DR. LINCK: I'm really disturbed by what I'm hearing. I really think our system is working very well. Maybe it's because I'm in the drug business, but I don't think that's true. I was a partner in a law firm before I went to the Patent and Trademark Office. I've worked in the software area in the office.

The presumption, as Jay Thomas mentioned, is really a burden shifting device to put the burden on the

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

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

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

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

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

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

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

MS. GREENE: Let Jim respond and then --

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

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

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

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

clear and convincing evidence that this patent is invalid for lack of written description or best mode or enablement or prior art or inventorship or frequently numerous other elements under 35 USC, the jurors hear clear and convincing evidence, and I don't care how good the art is before the office versus outside the office for the court, I think they're inclined to believe that they really have to lean over backwards to hold that patent invalid or unenforceable.

I think that's a burden that shouldn't be placed on them because once the defendant offers credible evidence that would neutralize the validity or enforcement of that patent, the patentee ought to be on his own to have to establish that that patent is worth being continued, and I just think that overall it's an unfair burden.

It's never disappeared because you always have to explain in those instructions that the clear and convincing burden is there, and it never disappears. It may be reduced in its intensity, but I think that's a feeling that's hard to articulate to somebody that's listening to it and looking at it from a patentee's standpoint.

MS. GREENE: Jay?

MR. THOMAS: If you think that patent litigation

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

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

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

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

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

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

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

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

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

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

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

Thank you.

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

MR. DICKINSON: There's one other wrinkle. We said this morning the director has the opportunity to order re-exams in the office.

MR. COHEN: Right.

DR. LINCK: Third-parties do as well.

MR. THOMAS: But they don't get access to the judicial forum, and they're not able to employ the full gamut of invalidity arguments before that forum.

MR. KUSHAN: But again we're kind of treating everything as a single thing, and we need to slice things up a bit differently.

MR. DICKINSON: I certainly hope that you --

MS. GREENE: I'm going to let a couple people jump in here. Bob?

MR. DICKINSON: I want to make sure Professor

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

MR. TAYLOR: Did you call on me? I understand the arguments that are made in favor of differentiating criminal behavior in the patent system from the copyright system. To some extent, this has something to do with the criminal component of mens rea.

There certainly are many situations where people innocently infringe patents. There are not quite so many that people innocently infringe copyrights, and I think the breach of contract analogy is not a particularly apt one because there are certainly some contracts that we certainly don't want people breaching.

We don't want insurance companies breaching their contracts, and at least in some states you get punitive damages if you're the victim of an insurance company breaching a contract. So once again you get a wide range of circumstances to which we are applying a single set of legal rules.

The law cuts with a dull knife. Litigation is a kind of a one size fits all process in many respects, and above everything else we have to create a perception of fairness or a perception of evenness and equality, not even necessarily fairness.

I look on the presumption of validity as a

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

There is something to be said for the reaction that juries have to a United States patent and that red ribbon. For reasons that I've never understood -- and I've talked to dozens and dozens of lawyers about this and we all have somewhat the same reaction -- for mysterious reasons, United States juries assign a level of credibility to the United States Patent Office that they don't accord to any other agency in the federal government or any state government or any private institution.

It's beyond me, but he has a patent on his invention. To some extent I think it has to do with the fact that inventors are part of the American folk lore. To some extent I think it just has to do with a long-standing perception by the public that the patent

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

disclosure function.

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

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

MS. GREENE: Right, Mel?

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

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

I think that's ridiculous. I think the reason the presumption is there is because a person, of all the people who are going to look at this, that is most qualified to do it is the examiner in a patent office. So why shouldn't there be a presumption that he did the right thing and came to the right conclusion?

Just because a judge says a patent is invalid doesn't mean that in an objective sense it is. It means that that's the opinion this untrained person came to, given the evidence presented in a litigated situation in which the quality of the counsel that put on the argument may be more persuasive than in fact the basic scientific evidence.

So I think that when you look at it, there's a good reason for the presumption, and that good reason is that we have paid over a billion dollars a year to the patent office to make these decisions. The people they picked to make the decisions are more qualified, at least on paper, than the people who would do it in the court system.

The other thing about the opinion of counsel -- a major portion of my practice again is doing opinions -- I would never write an opinion that I couldn't stand up

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

I've been deposed probably three or four times and testified at trial on opinions that I've written. What happens is, if I look at the situation and determine that you don't have a good defense, you don't get an opinion. You just don't write those opinions. So if you've got a written opinion which will defend you from willfulness, it's because there's a good faith belief that you have a defense.

So I think it's almost to the point where any company that goes into court and doesn't have a good faith opinion of counsel ought to be willing to take the risk of getting multiple damages because otherwise, that means you're there without having figured out a good way to defend yourself.

The third thing, which is actually something I want to complement Scott on, while we were having lunch he came up with an idea, and I just added a little tweak to it, and that is with respect to making sure prior art gets before the examiner, one of the problems examiners have is they don't have enough time to look at it.

If you were to tweak the system such that an examiner would get an additional amount of time to

review a case for every piece of prior art over a certain amount, that would give him more time to do it, but of course that would cost more money. Then what you could do is you could charge the applicant extra money, so if you submit more than ten references, you've got to pay to submit those references, and you can then get yourself a discount say of 50 percent if you not only submit the references, but you tell me why they're relevant and where in them the relevance is. So that way you could incentivise people to disclose prior art and from an economic perspective.

The final point I want to make, I'm sorry, is it Brian at the end? I represent some computer software people. Believe me, it's a tough sell to computer software people to go in patenting a system. They basically don't believe in it as a matter of principle. They don't believe in patents.

They believe that technology is moving so fast that patents aren't really valuable, and it's only when their company gets sued by somebody else who owns a patent that they wake up and see the light.

The story that you told is actually very telling. You said you went out to the industry and asked them for prior art that they could cite and they were warned that that may lose their ability to use that in

a later lawsuit.

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

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

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

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

MS. GREENE: Yes?

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

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

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

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

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

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

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

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

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

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

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

MR. DICKINSON: I wanted to finish one additional point with regard to what Brian said, and that's with regard to -- again, I find myself very much in agreement with Mel. I've given plenty of speeches in this regard.

The people who criticize the system need to put

up or shut up. They need to overcome and resist their litigators telling them, don't give your best art to the office because that's the way the system I think works best and most efficiently and cheapest is if we start to use these mechanisms like post-grant review.

If we don't get over this hurdle of getting art to the office, we'll just never get there. One other slight piece. I think we need to -- I would encourage you to study whether we should encourage the director to order more director ordered re-exams.

I studied this question when I first came in as director and was surprised that the office did not have a set of protocols at that point. I developed a set of protocols for director ordered re-exams, but the office is institutionally biased against it. They just do not want to do it.

I had to overcome that in a couple of instances to try to get more of those initiated, and I think the director's office could do a lot more of those and help out the integrity of the system.

MS. GREENE: Right. Now, you mentioned the word institutional bias, which is interesting because our last topic is about institutional issues. However, we do have four folks who want to make comments on this issue before we move on. So if you can make them

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

Jeff?

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

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

MR. KUSHAN: So the second thing is I found, like Mel, if I'm not willing to sit up and get grilled for a couple days in front of people about what I would say in an opinion, I'm not going to put it on paper. I'm not going to give that opinion. And the person who will is going to look bad in court. A good patent lawyer should be able to steer that person because they're having to have to twist their logic around to get the answer they want.

Finally, the last point is, going back to Jay's comment, this may be a theological point, but if you assume that you're dealing with valid patents, the theory that our nation is aimed at making copiers

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

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

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

Jay Thomas.

DR. LINCK: This one is first.

MS. GREENE: Okay.

DR. LINCK: I moved the mic because he was speaking and he just finished.

MS. GREENE: I defer to you.

MR. KESAN: I want to make a couple real quick points. First I want to sort of try and make sure the issue was really met. Brian's point was that companies don't want to turn art over because that's going to prevent them from using that in court, regardless of whether a patent examiner who is competent considers it or not.

That is the point. The point is in our current rules -- Mr. Garner's point is exactly correct -- if you have a competent person actually consider that piece of prior art, then it's okay to have some kind of presumption of validity with respect to that. But, when you simply have a bunch of art that's turned over, regardless of whether it's considered or not and then you have some sort of presumption attached to that, that sort of doesn't make a lot of sense because right now all you have is you can turn over 10 references, 20 references, 50 references, but the moment you've got a signature, you're all set, and that's the point.

The second thing I wanted to say was as far as

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

(Discussion off the record.)

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

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

We don't properly focus on price erosion, overall

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

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

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

that those things be disclosed in the specification.

MS. GREENE: Scott.

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

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

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

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

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

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

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

MS. GREENE: Jay?

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

factual settings.

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

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

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

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

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

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

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

Okay. Bob?

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

origins of the patent laws.

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

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

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

where we didn't do it quite so objectively.

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

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

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

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

courts are already recognizing competitive principles.

MS. GREENE: Bhaskar?

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

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

First of all, I think that innovation in science and technology is growing at some enormous rate, and we see no process anywhere within sight of its slowing down.

Given that, I have to believe that the patent office's business under the current scheme of property rights will increase forever. Given that, it seems to me it's the first principle of public management to say, how do we reduce the throughput of the patent office or indeed of the INS or anything else? How do we reduce throughput has to be part of responsible public management.

Secondly, it seems to me that we've been thinking about patents in a purely atomic sense. That

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

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

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

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

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

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

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

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

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

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

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

MS. GREENE: Steve.

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

By that I mean is there good analysis out there that is worth using, that is relevant, and that may not be finding its way into the policy process or the examination process or the judicial process. And I think the answer to that is, yeah, we're beginning to see a good deal of policy and administrative relevant research. It's very spotty. One would have to say overall

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

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

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

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

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

MS. GREENE: Todd.

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

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

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

MR. MERRILL: That was before the decision three weeks ago.

MR. DICKINSON: There's a point. He's also correct in his understanding of the current staffing at the PTO in terms of issues like analysis, and there's one economist on staff, for example, in the office, and I'm not sure they ever had more. I'm not sure whether there was a deterioration, but the office doesn't necessarily see it as a priority in the sense of budget allocation.

I think if you asked them, and they had the discretionary dollars, they probably would think that would be a very nice thing to have, but in tight budgetary times, that kind of economic analysis policy shop is just -- it's a luxury they probably can't or don't feel they can afford. I don't know if that's the right answer, but I think that's the current state of affairs.

You asked how we can provide for ongoing and effective dialogue between the antitrust agencies and the PTO. I think by doing it I think principally. I had one rather good, rather extended discussion, meeting with Assistant Attorney Melamed when I was in office and, it was an efficient one. I think they should be done more routinely, and I think it can provide a very effective dialogue. It can head off problems.

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

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

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

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

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

MS. GREENE: Brian.

MR. KAHIN: I think there are a couple of big conceptual problems here, one of which is embodied in our discussion which has been, I said earlier, process-focused and focused at the independent patents. So I want to agree with your point, that the real action is at the portfolio level, and in fact there's a lot of action at the international level which we haven't begun to discuss.

A large part of the problem is the way that the PTO has defined its own mission and defined its own corporate objectives, which have been very much this customer-orientation and explicitly expansionist policy. It's cast itself as an advocacy agency, and this has been

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

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

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

dimensions of the patent system.

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

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

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

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

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

of what really happens to the system when you get this ubiquitous mutual infringement, when you get all these patents colliding with each other.

The market has developed mechanisms to deal with that by ignoring it and doing these cross-licensing deals and patent pooling when it gets more focused. But, there's basically really fundamental epistemological problems. You see this in Michel's speech to the meeting in Berkeley in March when he basically says, we're talking to ourselves all the time, we're not getting any empirical data to make decisions as in Festo.

Let me stop there. I could go on forever.

MS. GREENE: Well, you've brought to head a bunch of really important issues including: what are the ways in which we can heighten the transparency of the policy making, which is then a way by which you can gauge whether or not these economic and legal issues are being fully considered? If not, are there additional ways that you can sort of have access into the system or are there sort of structural approaches, structural dimensions of the system that do not allow those arguments to be heard or heard in a meaningful way?

Let's turn to Jay now to begin answering those questions.

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

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

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

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

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

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

certain areas in pharmaceuticals, but then again, it's not patent driven in certain areas like perhaps bio informatics, and it's certainly not patent driven in areas like agriculture biotechnology, where until now it was largely not considered to be within the purview of patent protection. And then we had other legal regimes like the Plant Variety Protection Act and so on.

So it seems to me that it makes sense to look at these things in an industry specific way, to try to really understand what is the role of patents in these various sectors and to try and see -- the corollary to that is to try and then see if patent policy and patent rulemaking can then be tweaked to make sure that we have the right kind of economic welfare being promoted and the right kind of competition policy in each of those sectors, and it only makes sense that we do that.

Let me throw this one thing out which is, as far as institutional challenges go, it seems to me at least based on anecdotal evidence, there are lots of instances where people say there is just one or two or three patents in these industries that are sort of locking everything up and making life difficult and so on, and they actually happen to be -- if they're valid patents, it's perfectly fine, it's great.

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

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

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

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

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

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

In the same area, there are other places -- while I know Judge Rich has said we've always given business patents, the fact is until a few years ago, until State Street was decided, a great many of us thought that probably we didn't really grant patents on business methods. And the fact is it didn't harm the business method industry to not be given specific patent protection in these areas.

I think we ought to be examining, where do we need to give patent protection in order to bring forth the creations and the developments and economic growth and technological progress that we need, instead of just saying that one size fits all, and therefore we're going to give great protection and raise presumptions and clear and convincing standards and this, that and the other, when we're far out of proportion to what ought to be the guiding principle, and that's competition.

MS. GREENE: Thank you. Jon? And among the things that Jim had mentioned was this sort of potential divergence between the social and private incentives to challenge patents, sort of potentially invalid patents,

so can you address that as well.

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

MS. GREENE: Absolutely.

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

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

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

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

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

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

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

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

MS. GREENE: Mel.

MR. GARNER: Actually I have two points. One is to disagree to a certain extent with Brian and Jim about the effect of patents in the software industry. I know that the patent office is currently awash in patent applications that have been filed, so much so that they're not getting examined. So to say the software industry is not making use of them, would seem to cause me to question why there are so many applications on file.

Next is sort of a general comment which is that if you are representing a software company, and they have a piece of software that will fit in a web browser, you better have a patent or someone is going to eat your lunch. They're going to take it away from you in a minute, and I think maybe that's where the antitrust people can best operate to make the major web browser companies behave themselves, but if you had a patent, you can cause them to behave themselves anyway.

The other thing, turning it around, we're almost at the end of the day, and actually I would like to ask

maybe Hillary a question, and essentially it's this: Item number 6 here suggests that the PTO.

MS. GREENE: I'm sorry?

MR. GARNER: Item number 6 suggests that the Commissioner be given some substantive rulemaking power to take into consideration economic concerns. Those of us who are sort of in the patent community when the Federal Trade Commission and the Antitrust Department of the Justice Department starts looking our way, our tentacles go up and we start being a little concerned about what it is you're going to do.

So maybe you can give me an example of what kind of rule a Commissioner might make that would take economic factors into consideration.

MS. GREENE: Actually let me back up. What he's referring to is we sort of discussed some general questions that we were using to shape today's dialogue, and it's not meant to suggest that that is necessarily something that could be done.

What we have heard, though, throughout the hearings are sort of two strands of thought. One of which is sort of that there might be ways in which the economic analysis could be taken into account. Then, the other strand of thought, which I think was promoted in part by the PTO, or at least thrown out on to the

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

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

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

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

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

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

extent now than it was say in 1974.

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

Within the Rule of Reason in antitrust analysis, when you're looking at what might be a legitimate business justification for a particular type of conduct, you look at whether it might be designed to prevent free riding and preserve appropriability in appropriate ways.

So that's just an example of how we see, in our doctrine, an incorporation of various of the values that are in the patent law, and the question is, since these two doctrines do intersect in particular cases and as some have articulated, the question is: are you going to use the exclusive right to encourage the innovation? Or, are you going to assume the competitive process itself is going to encourage the innovation and you're going to have appropriability through other means other than patents?

So there is this close relationship, so our question is really: is there anyway to think about, within the construct of patent law, some of the issues that animate competition law and policy? I think Bob Taylor, who unfortunately doesn't seem to be here at the

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

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

MS. GREENE: Scott?

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

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

different inventions. You could have a hardware circuit or you could simply use software to reprogram your computer.

The idea that you would be granting patents for the hardware, which have been granted in electrical engineering areas for quite some time, and that you couldn't protect it because somebody could circumvent it so easily with software, just didn't make any sense.

At the same time, the Federal Circuit kept striking down the Patent and Trademark Office's position when it was taking one of these cases up. The consequence is not that the Patent and Trademark Office expanded in this area, they were dragged kicking and screaming in this area.

The Patent and Trademark Office has to defer to the Federal Circuit and so when they say something is patentable, they have to follow it. If there's going to be economic analysis done, it's not something that can be done effectively at the Patent and Trademark Office for substantive rulemaking.

That said, there is a certain amount of policy that's done when the Patent and Trademark Office goes into rulemaking. You can't make prospective determinations very effectively as to what's going to be patentable and what is not going to be patentable

without having some form of policy decision.

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

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

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

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

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

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

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

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

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

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

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

As a trade policy matter, that's very objectionable because it's basically saying, this is great, we can use American innovation without having to deal with the overhead of the patent system.

I don't believe in that type of an approach. I think it would be nice to get in very large developing entry matters protection that lets us compete on innovation where we have an advantage, and I want to see that type of standard developed.

But in all fairness to the PTO, they ran Federal Register Notices, they went out and they published all these documents six to ten weeks before the meetings when they come out, they get all the comments in, and that's what they base their opinions on.

So I think that comment unfairly casts the

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

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

I value my opportunity to participate today.

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

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

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

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

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

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

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

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

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

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

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

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

MS. GREENE: Todd.

MR. DICKINSON: Thank you very much for the

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

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

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

I would support Brian and generally oppose Jim on the issue of whether the FTC and the DOJ should have the independent right to sue to invalidate patents, without a lot more study. I just know what all the implications are of that. It's very dramatic, and I think it would be very difficult to implement politically, but as a general rule I think it would probably tip many balances in ways that give rise to unforeseen consequences.

As far as the amicus brief role, I think that's a good one. It exists today because the government has to have just one brief coming out of the DOJ that all has to come together at one point. We do that.

Another good example of that would be the CSU versus Xerox case where an amicus brief was filed opposing the Supreme Court granting cert. and now with a

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

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

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

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

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

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

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

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

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

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

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

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

CASE TITLE: Workshop

HEARING DATE: October 25, 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: November 1, 2002

DEBRA L. MAHEUX

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

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

DIANE QUADE