FEDERAL TRADE COMMISSION

PATENT REFORM WORKSHOP

APRIL 16, 2004

BANCROFT HOTEL, BERKELEY, CALIFORNIA
INDUSTRY PANEL

PROFESSOR SHAPIRO: Let us get started. Now that Commissioner Thompson is here at my side, welcome. I am Carl Shapiro. This is the Industry and Institutional panel. We are going to try to really bring in industry here more directly and see if we can have ideas into action as promised or suggested. I am a professor here at the Business School. I come more from the antitrust side, but I have long been interested in antitrust and intellectual property issues. I think also a lot about competitive strategy, so I am particularly keen to hear today from our wonderful panelists how the Patent System or its flaw are really affecting business. My perspective - I put the cards on the table right at the front - is if the Government is going to be granting monopolies, they should do it when there is a good reason to do so and not just because we have got a process that favors people who are hoping to get such grants.

COMMISSIONER THOMPSON: From the Government’s side, there are very few good reasons to do so.

PROFESSOR SHAPIRO: There is my co-moderator. You have heard from him.

COMMISSIONER THOMPSON: There are a few, there are a few.
PROFESSOR SHAPIRO: So let me explain what we are going to do. Commissioner Thompson reserved special intervening rights, okay, I think he is going to raise his pinky and then everyone has to stop talking –

COMMISSIONER THOMPSON: That has never worked before.

PROFESSOR SHAPIRO: I am going to be the time-keeper. And with a dozen panelists and many topics to go through, this is – I tend to take my job seriously, so let me demonstrate my tools of the trade. When there are time limits, and in addition to the pathetic waving of the stop sign, we will have – be quiet now – that means now would be a good time to wrap-up. However, I understand from law enforcement that sometimes one needs a higher threat of action if people don’t comply, and as many of you patent attorneys understand, that the threat of what can come next, you know, can affect things since you often negotiate in the shadow of litigation. And I want to take – a point of personal – this will take one minute to tell a story here – this involves Jose Capablanca (phonetic) who was the world chess champion during the 1920's and he had a championship match against Allakein (phonetic) in 1927, and they were bitter rivals. Capablanca was Cuban and he was a big cigar smoker, not surprisingly, and of course Allakein negotiated that
Capablanca could not smoke his cigar during the chess games. But there they show up to the first game, Capablanca is with his cigar. Allakein complains, says, "We agreed you wouldn’t smoke;" Capablanca says, "I’m not going to smoke, I just like to hold my cigar while I play." And Allakein thought about it and said, "But I am very concerned about the threat that you will smoke." So I have to have a threat. I will demonstrate it once, I will not light up my cigar. If you go on too long, we have a noisemaker here that will make the point. Everybody get it? Okay. Here is what we are going to do. We have great industry representatives here and we have representatives of several associations of attorneys. I think together we can really get a sense of how some of these FTC proposals are being greeted by people who live and breath this in their businesses and through all stages of the patent process, through attorneys who know these far better than I do. Okay, so – and I think you hopefully have heard the other panels. I think the problems are well set up. I am not going to repeat that. We are going to go right into really how does this affect companies and where are the Bar Associations at on some of these proposals. Okay, I think we have heard a lot about, concern about patent quality, okay, what does it mean in practice and what do
the people who know these things best as practicing attorneys - what is their reaction to these proposals? And I think it is very important here to bear in mind that even companies that have a lot of patents do not necessarily think, “Oh, stronger patents, more patents is better.” Okay, it is not that simple. In fact, many of them with many patents are concerned that there are too many bad patents out there at the same time. In addition to the industry representatives, and I am not going to go through and introduce everybody since they will have their chances to speak, and I do not want to take the time for that, we have representatives of five important associations, so let me just mention those associations and the people can speak more about that, the ABA Intellectual Property Law Section, the AIPLA, the Intellectual Property Owners, Bio, and the U.S. Council for International Business. So a number of the panelists will be speaking on behalf of those organizations, other panelists will be speaking on behalf of their companies, and some clever panelists will wear two hats and will have to tell us which hat is on when they speak. Okay. One of the good things here is that a number of these organizations are in the process of responding to evaluating the FTC proposals, so we will be able to hear where they are at, okay? In most cases, they do not have
the formal final approvals yet, but we will be able to
get an early read on when they are coming out and I think
that is very very helpful.

The way I want to run this, then, is three
phases, first I am going to give each company
representative a few minutes to tell us about how the
Patent System and flaws in the Patent System really
affect his company. Okay, what do they care about? How
is this causing problems in the real world for their
businesses? And where is their company most concerned
and most interested in change? Some elements of those.
Then we will spend most of our time walking through the
FTC proposals one after another and getting the sense of
where people are at, is there a consensus or not on
certain proposals? And then the finale. We will see
with Commissioner Thompson leading us where we will go
with all of this and what can be done. I am going to go
through the eight company representatives in alphabetical
order by name of person and we start with Robert Barr
from Cisco. Make sure you have a mike.

MR. BARR: Okay, thanks Carl. First, since
you are asking us to do this, I want to object to the
dismissal of this kind of evidence as anecdotal. I have
heard it a few times now in reaction to the FTC Report
and it – one person’s anecdote is another person’s case
study is the way I look at it, and I think the FTC did a
great job of synthesizing a lot of anecdotes into a very
coherent report that showed I think what you are about to
hear that some of us in the industry – that more than one
of us in the industry have some issues. That said, I
want to say we are a stakeholder in the Patent System, we
are a major owner of patents and an investor in the
system. We want patent quality. We want patents to be
respected. I do think it is pretty simple. Patents are
like children and yours are good and everybody else’s are
bad, so, you know – well, our patents are therefore of
high quality. Secondly, in addition to being a patent
holder, we are what I can only call a potential
defendant, or a deep pockets, or a company with revenue,
whatever you want to call it. So we have an interest in
avoiding infringement. In fact, if I could choose my job
and do it, I would say my job is to avoid infringement
like I do with copyrights and trade secrets and laying
down the law, as it were. But with patents, that is
pretty difficult. We used to call it a minefield out
there. Thanks to Carl, we now call it a thicket, which I
think is a better image because it is not just a bunch of
mines that we have to avoid, it is an overlapping morass
of patents that is virtually impossible to avoid. In
corporate-speak, that is a risk management problem of the
highest order. It is virtually impossible to avoid all those patents because of the sheer number of them, but in addition to that, the unpublished patents, the published patents that you do not know what they are going to turn out to be, the numbers are pretty big, and Intel representatives have quoted numbers like 80,000 patents on a microprocessor, it is just a clue to what is going on.

Why have we gotten to this situation? Well, for one thing, to many people, patents are a business in and of themselves. They are a revenue-generating operation that, you know, has high margin and relieves them of the terrible responsibility of bringing innovative products to market, they just tax others. So patents are a business. But, secondly, the reason we are in this situation is because those of us who are involved in the thicket contribute to it. We stockpile patents. We increase - every time we find out that everybody else is increasing patents, we increase. So you have a vicious cycle of stockpiling of patents, mutually shared destruction. What is wrong with that? It is a drain on resources, money, engineering time that could better be used for innovation. That is all I want to say. Thank you.

PROFESSOR SHAPIRO: Thank you. Next, Bart
MR. EPPENAUER: Thanks. It is a pleasure to be here today. I will put my comments in the context of the report itself in terms of the issues that we see. And first and foremost the issue of the law of willful infringement, and it is really good to see the report come down the way it does, and we are hopeful that the Knorr-Bremsey decision comes out the right way. But, regardless, we wholeheartedly agree with Judge Whyte that it is a real pain for companies to deal with willful infringement allegations. We face it in just about every case that comes against us, regardless of whether we had any knowledge of the patent, if the patent was issued the day and the next day we get sued, well, we will get a willful infringement allegation based on some press release, perhaps, that was issued about the filing of the patent five years previous. I mean, we really have had to deal with a situation like that, and it is one where we completely agree that willful infringement ought to be limited to cases where there is specific written notice and, going even further, specific identification of patents and the claims, and how the claims apply to the products so it is really before that willful infringement allegation triggers – you have that. Another difficult or tenuous willful infringement allegation that we faced
before is in cases where a company’s patent was cited in
one of our own patents – in prosecution, one of many
thousands of patents we have, and it just so happened
that this company’s patent was cited, and now we are
fighting a willful infringement allegation because it is
just not clear what kind of knowledge is required, and we
certainly do not think that that kind of thing is at all
sustainable and would put an incredible burden on
companies. So we are really happy to see and we fully
support the willful infringement change in the law. We
hope the Federal Circuit does the right thing and look
forward to that decision, as well as the waiver issue on
attorney-client privilege, that really is a difficult
proposition and we fully support having no adverse
inference established based on whether or not you decide
to disclose your attorney opinion because you just do not
know how far that is going to go with a particular
jurisdiction, if you are going to have to give up all
your trial counsel notes and things, that is a difficult
thing. So I think, first and foremost, that is really an
important point to us.

The second point, perhaps, in relation to the
post-grants review proceedings, I think it is pretty
clear that there is a major increase in patent litigation
in the IT industry and certainly Microsoft faces an
increasing number of patent lawsuits where we are the defendant. And on top of that, we have many many more assertions prior to litigation where we spend a fair bit of time negotiating and analyzing those assertions. So in that respect, I do echo some of the comments I heard earlier today which is, it is not just an issue of what are the questionable patents, or what are the bad patents, if you will, but it is really an enforcement issue. You know, the PTO very well may have granted a patent that, if you look at the file wrapper and – is that it – sure thing, good, one more minute before the big thing comes up. So I think in that context, the post-grant Opposition would be very helpful to try to avoid litigation disputes. And one of the things that is interesting and we would like to see how this plays out is the time duration. One year from issuance in some industries might work really well, and in a lot of the cases that we see come our way, it is many years after the patent is issued that we just first learn about the patent that we are sued, and it is not going to be real helpful to us, the post-grant procedure, if you can do something, some threat of a lawsuit, or an actual lawsuit where you can institute this proceeding, and in some industries like ours where there are so many thousands of patents out there in the Information Technology space, it
is kind of difficult to monitor all of that and to select
the ones that you would want to pursue in an opposition
proceeding. So it is going to be interesting to see
that. That is it for me for now.

PROFESSOR SHAPIRO: I do not know if you want
to speak at this point on behalf of 3M, or if you want to
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MR. GRISWOLD: I think I am here on behalf of
the AIPLA, and so I will tie it together with my AIPLA
comments. I can, but they kind of join. You would
expect that they would join at the hip. I will do it
later with the AIPLA.

PROFESSOR SHAPIRO: Okay, well then we have
Sean Johnston from Genentech.

Mr. JOHNSTON: Hello. Thanks. I will start
by commenting or making the observation that Jim Pooley’s
comment earlier today resonated with me when he said the
so-called sand in the gears are really in the enforcement
system, and that is the area that we have the most
concern with. And, in particular, I will go quickly
through three areas where we think the FTC has made some
good observations. First, is in the need for a new and
improved post-grant review process. This was the topic
of the discussion of the panel this morning, so I won’t
belabor the point, but suffice it to say that, like many
other businesses, we encounter bad patents and have a hard time dealing with those. We end up in litigation too often dealing with bad patents, patents that we believe are invalid, that eventually are found invalid on appeal, and it is an extremely costly, time consuming process not only in costs from the perspective of paying outside counsel to litigate these matters for perhaps many years, but also the opportunity costs of taking away scientists and engineers from work that they would better be devoting to scientific research, rather than to depositions and giving expert reports and the like.

The second thing is, as a number of people have commented, reigning in the proliferation of what we believe are unmeritorious, intrusive, willful infringement claims that I am afraid too often are brought just for strategic coercive purposes to try and exert the maximum amount of pain or potential pain on a litigant. And I think in this area, in addition to whatever the Court of Appeals may decide in the Knorr-Bremsey case, at a minimum, we should codify some requirement that there be a bifurcation of the willfulness issue away from infringement and validity issues, and let the patent owner make out a willfulness claim, if they can, only after they have established validity and infringement of their patent claims.
Regarding the FTC’s comment on the so-called thicket of patents, I encourage focus on one particular patch or aspect of that thicket, which I know has been the subject of discussion by a number of different panels and groups amongst the – along the time line here, and that is the patents that are directed primarily to materials, methods, and machines that are used solely in research activities. So some people would refer to these as the so-called research tool patents. The point here is not to take away or put these patents sort of in a second class status, but the fact of the matter is these patents are proliferating in number. Again, I may be hung up on transaction costs, but dealing with these sorts of patents on a one-off basis is extremely time-consuming, there are tremendous transaction costs, and I think we need to find a better way of dealing with that and, for example, I think it is worth taking a look at the scope of the experimental use exemptions, seeing if there is some possibility of making some changes there, perhaps finding a market-based, more efficient way to license these things such as through a clearinghouse akin to the Music Copyright Clearing Houses, and just overall. Finding a way to deal with these in a more efficient way. And my last comment, then, will be just a general observation. I cannot help sitting and hearing
the comments this morning, in particular people commenting – I think someone referred to it as the “willfulness game,” the proliferation of just an excessive number of inequitable conduct claims, the sort of cynical use of the Eastern District of Texas for filing cases. I think you cannot help but hear that and come to the conclusion as was once said, that we have met the enemy and he is us. I think it is perhaps ironic if we take a step back, this same group that is organized here today, that is complaining about this, that were often the ones who are going back to our offices, to our outside counsel, and actually making these sorts of claims, making these sorts of filings. So at the risk of sounding like I have been in Berkeley too long – I don’t live in Berkeley – I think we all should take a step back and perhaps exercise a bit more self-restraint, self-discipline, and take a more far-sighted perspective on how we approach these various issues and not rely exclusively on legislative or regulatory reform.

PROFESSOR SHAPIRO: Okay, well, as an antitrust person, I am always a little cautious when people want to propose [off mike], but in this area it seems like a good idea to talk about policy.

MR. JOHNSTON: Thank you.

PROFESSOR SHAPIRO: Next, Jay Monahan from
MR. MONAHAN: Thank you. If some of these problems are the sand in the gears, then eBay is in the business of building gears. We have built an E-commerce platform which, as you know, has met with enormous success. The interesting thing is, almost five years ago to the day I started at eBay, the only time I ever heard the word “patent” was if somebody was referring to patent leather shoes being sold somewhere on the eBay site. And there was a long period of virtual silence, never got a letter, never got lawsuits, nobody ever talked about it, and then over starting probably three and a half years ago we started to see more letters. And the letters sometimes were followed by lawsuits. And many of the letters, in fact, I would hazard to say most of the letters, when you actually dug into them, you realized that were either facially ridiculous, or an incredible stretch of construction, and in my view if you applied a Rule 11 analysis to it, it never would have exceeded Rule 11. Now, in fact, there was one case where I got a letter and I said, “You know, you have got to be kidding me.” I cannot tell you how many times I have said that, but I went to Google to the Google News Groups, which I pray and thank Google for every day, and in two hours found dispositive killer prior art. And I said there is
something wrong with this picture. It has driven the
cost of my life, of my life as a lawyer at eBay up. I
now spend more of my time on patent issues, both our own
portfolio, as well as defensive issues, than any other
single issue, which was clearly not true a few years ago.
We worry about these letters because of things like the
willfulness standard. It would be great if I could just
say, “This is ridiculous” and throw it in the trash can.
We obviously can’t do that. We engaged in a very
reasoned analysis and, in some cases, we get very
expensive opinions of counsel which, in some cases, sit
on the shelf because you never hear again. In fact, most
of the time you never hear again, but that does not mean
it is free to me. We also get a lot of what I call
“squirrely” letters and this is an issue which will have
to be considered when we talk about what a willfulness
standard ought to be because many times the letters do
not say “Dear Jay, Your X product is infringing my
patent,” it will say, “We noticed that you recently
announced your such and such feature. We think that you
might be interested or benefitted from taking a license
to our portfolio.” So are they accusing me of something?
Well, I do not know the answer to that, but I can
guarantee you if there is litigation, they are going to
say they did, and I am going to be dealing with that
issue in litigation. Lawsuits – lawsuits – we are in a whole new world. The presumption of validity is a problem. It is something which is trumpeted by Plaintiffs, it is something which is difficult to get over. Summary judgment is also difficult to get over. And I think that there is something that is outside the scope of this conference, which is what about the role of the judiciary? Because I think there is a reluctance among some members of the judiciary to do what I would say is the right thing, which is to grant summary judgment, to issue a Markman ruling that construes the terms and lets the chips fall where they may, and I do not think that happens as much as it ought to. And, finally, big verdicts and big settlements – verdicts happen and, by the way, I am litigating in Marshall, Texas and in Delaware as we sit here today, and I have to balance as an eBay lawyer the need to fight these cases to demonstrate our resolve against these ill-conceived patents, but at the same time do what is right for the company when it comes to balancing risks. And, unfortunately, as the FTC report points out, the balance has been disrupted. If there was a balance, there no longer is a balance. And we are here pleased to be a part of this conference, we have some thoughts on some of the reforms that make the most sense which we are going
to talk about in a minute, there are others which we have not yet formed full opinion on, but really welcome the opportunity to finally try to do something about this important area.

PROFESSOR SHAPIRO: Thank you, Jay. Next I would like to turn to Kulpreet Rana from Google.

MR. RANA: Thanks. So my perspective on this issue has really changed over time. I was thinking about it earlier and I remember when I was in law school thinking about the Patent System from a very theoretical viewpoint and, oh, there are these interesting issues and tensions, and then I had the good fortune of clerking at the Federal Circuit, please do not stone me for that, and that was also like a fairly academic perspective, though, thinking about some of these patent issues. You are still in a bit of an ivory tower as an Appellate Court. Next up was law firm practice and, you know, that was a bit of a transition period, but it was not until I actually entered industry at Google that it became very evident to me what the real world impact is of the Patent System. In short, I think it is really just a mess from the perspective of trying to deal with the issues that you face when you are in-house. As with other people on this panel, Google approaches this issue from the perspective of a company that obtains patents and also
has patents asserted against it. And, you know, I think it is hard to make some of these - to think about some of these things, generally, because there are places where the Patent System is probably working fine.

And, so, making generalizations tends to raise kind of concerns on other sides. But there are also places where it makes it difficult as a business person to provide the kind of advice that you need to, and one of the main high level areas of that is just in terms of the - and a few people have mentioned this before - the lack of certainty or predictability that is engendered, and this ties into the examination process, and if you don’t have a clear sense of what the quality is of patents that issue or what their value is, it becomes hard to make business decisions about that. There are those who would take advantage of that ambiguity by, you know, in conjunction with the presumption of validity, to try to extract value. And certainly the fact that litigation is one of the main ways of resolving that right now does not help because it is a high cost alternative, and so that encourages settlement even where it may not make sense. But that is just one context. That same ambiguity and uncertainty comes into play in other areas, as well. If we are trying to assess the value of patents that we have ourselves for purposes of
licensing, it is difficult to do because of the uncertainty. If we are interested in acquiring another company or a portfolio, it becomes hard to evaluate that because of the uncertainty.

So, you know, for us, having something that would create a little bit more certainty would help with making business decisions. So we certainly think that some of the FTC’s recommendations are a useful step in that direction and we are happy to kind of participate in that discussion going forward. And I am going to grant the rest of my time to my colleague, Michael Schallop.

MR. SCHALLOP. I wanted to just set the background for a couple of scenarios that are practical scenarios that I think similarly situated companies, software companies, of about Semantec’s size will run into from an inside counsel perspective. So Semantecs is primarily a software company, which means that we develop products and release those products in generally a six to nine month time frame. So you are talking about a pretty rapid development cycle in a product life cycle that in a software product space, you know, may not exceed three, four or five years. It is characterized, I think, accurately in the FTC report as an area where there is incremental innovation. We come out with a new product
feature and, very shortly after, competitors, once they see that feature, if they had not already been developing it for their product, will soon enough develop that similar or maybe an improved feature along the same lines in their product. It is very front-loaded, kind of like law school, all the work and rewards are generated by the initial product development. The industry, because it is incremental innovation is, you know, correctly characterized, I think, in the report also as a defensive patenting area, which means that it is a numbers game. You have an incentive to try to patent as much of your distinguishable product features that you can get through the Patent Office, which from hearing from the staff, that is probably one area where we have certainty. You have a pretty good chance of getting a patent through, depending on claim scope.

So, as a practical matter, that means that we need to file patents on those distinguishing features, on key product features, and do these reviews for products, you know, fairly often. At the same time, you have engineers and developers who are under a lot of pressure to get new products and new features out. With that in mind, I think that the focus in some of the recommendations on patent quality may be the best way to start to make sure that we can address what is really –
and I think Bob would address it as the MAD game. And it
is always going to be a numbers game, even if we try to
address some of the enforcement issues, whether it is
standards of proof and presumptions with obviousness,
because in a numbers game, just having patents issued,
whether or not they are ever going to stand up in court,
serves their purpose, depending on the different contexts
with certain competitors. So I do think that addressing
the patent quality up front makes a lot of sense and has
the advantage of putting more of the burden on the
patentee to prove the patent is entitled to get through
the Patent Office, rather than post-grant procedures
which, again, the transactional costs are going to be
born by the potential defendant or targets.

The second scenario that we often face is, if
you are a company that has a revenue stream, you are
inevitably going to be a target by either your
competitors and/or what the report refers to as “hold-
ups,” “patent hold-ups,” or referred to earlier today as
“trolls.” Addressing the patent thicket issue, I think,
requires you to have really good information as to what
patents are out there and the Patent System today is
designed to disincent you from actually studying your
competitors or other third party patents out there, which
I think really disrupts the balance of the Patent System,
which is, you know, the disclosure is the exchange to encourage innovation and is the basis for the Patent System’s goal of evolving technology.

PROFESSOR SHAPIRO: Thank you. So our last industry representative here in this first part is David Simon from Intel.

MR. SIMON: I thought the best way is — for those of us who are up on the panel in the industry have faced these problems all the time, but to try to make it a little bit more clear as to how the uncertainty is a problem, use something that Professor Shapiro may be aware of in terms of LBJ’s One-Handed Economist, which is, early on in my career at Intel, I got called in to handle a problem. It was a problem with nine zeros after it, and I, just having been outside counsel for my entire career, started with, “Well, on the one hand,” whereupon the Senior V.P. who I was talking to’s hand came down on top of mine and said, “David, if another hand hits the table, I cut it off. What do I do?” This guy was a little scary, by the way, so that was particularly unnerving. But, be that as it may, the problem that we all — those of us who are in-house, all face, is we have to give advice on what are we going to do, and we are facing a huge amount of uncertainty. You know, and if you just think about some of the FTC issues such as the
willful infringement issue, you know, in response – and I am the guy they turn to, saying, “What do we do?” whenever somebody sues us. I have to say what we are going to do. Well, that is an opinion. Immediately I say what we are going to do, now is that going to be open for discovery? It raises a whole host of issues that just completely raise too many uncertainties. Similarly, we get these patents in which, you know, I mean, there are some really good patents, we have got some really good patents – and by the way, our success rate on getting patents is over 100 percent – so – well over, by the way – but the point being, you know, you get these patents and you take one look at them and you say, “You know what we ought to do with this patent,” but, you know, you have to go through all that analysis, you have to go talk to your engineers, and it is very distracting and it is very taxing. And, in fact, it also causes us to, of course, both for prior art purposes and to make sure that we have lots of stuff out there of our own, it causes us to file what I personally think is an inordinate number of patents, and every year my CEO says, “Go get more,” to the point where my patent filing budget and prosecution budget is now more than half the size of our Corporate Research Lab’s budget. That, to me, seems to be out of kilter. And, you know, obviously – and by
the way, that does not include litigation, that is a separate budget which is also roughly the same.

So, you know, you are looking at a huge tax on the industry and you are looking at a whole host of problems that come with that. Every case that we have brought, we have got to take our leading engineers, particularly the most senior ones who really have the intimate knowledge of what is the prior art, pull them off of the projects they are doing and, by the way, these guys work 18, 19 hours a day, six to seven days a week. They are incredible. And say, “I need you to help me find prior art on this,” or, “I need you to help me explain why we do not infringe on this.” And that is a huge task which I really do not think society is getting the benefit for, to the point - just to give one practical example if I have the time -

PROFESSOR SHAPIRO: You do.

MR. SIMON: Okay, just got it in there. We got sued several years ago on a patent where we felt we could get the license for $2 million. I have had a number of people come up to me afterwards and say - and, by the way, this is the case that we used the term “patent terrorist” which got us sued for libel, which had, by the way, very interesting issues in collateral litigation - but because truth is a defense, right? But
the point being that when you - it cost us $3 million of
outside counsel fees to win on summary judgment and get
it affirmed on appeal. We probably could have gotten the
license for $2 million, and I am not throwing into that
literally hundreds if not thousands of hours of various
ingenieurs’ time on helping us on this case plus in-house
counsel work on this case, as I think my time has some
value, at least. And when you looked at that and said
what was the right thing? Should we have paid? Should
we not have paid? You know, I asked my CFO that and he
said we did the right thing because it only cost $3. I
said what if it was $10? And he said, “I am not going to
give you that answer today. Thank you.

PROFESSOR SHAPIRO: Thank you. Thank you,
all. So next I want to walk through - we are going to
walk through each of the FTC’s proposals in order - why
not? And I am going to frame it up and then turn to
certain of the panelists to give reactions, where they
are at on that proposal, pluses and minuses. The goal
here is so we can really hear - try to learn where there
is consensus, where there is not, and get a sense of
where this process could go - again, from people who
really live and breath this stuff. So let me start - I
will read each of these briefly just to make sure we are
all on the same page since you may not have your handy
dandy copy in front of you, right - 1) FTC Proposal 1, this is the post-grant review: “As the PTO recommends, enact legislation to create a new administrative procedure to allow post-grant review of and opposition to patents.” Okay, and of course there was a whole panel on this, this morning. And yesterday Rob Merges, I think, laid out some of the basic facts - 180,000 patents a year are issued - what was it? 17 hours per patent on average by the examiner, it takes over two to three years. I think he gave a number of $3,000 dollars spent for a patent. I think Mark Lemley gave an impassioned piece this morning on why the PTO’s structure is not set up really to - it is a quick look, okay? It is a quick look. And I think maybe Joe Farrell described it as “error prone,” but of course there would be those that would dispute that.

So, at the same time, there is a re-examination procedure, but it is basically not used at all. I think Rob Merges reported that it was only used 20 times in the past five years. Okay, so a trivial number of times. So that is not working, at least not useful and effective. Okay.

So, I will add that the National Academy of Science’s Report calls for an Open Review Procedure, basically of third party challenges before Administrative
Patent Judges at the PTO, so they are on the same page here, or close to it. Okay. So where are folks at on this? Is this something that everybody wants and can go forward? And, if so, how would it be designed? Because, as a number of people have said, even if you want this, how are you going to structure it? The devil may be in the details. Okay? I would like to turn first to Robert Sacoff.

MR. SACOFF: Thank you very much. I am the Chair of the ABA IP Section, and we are one of the organizations that Professor Shapiro was referring to when he talked about some of the organizations being mid-stream in their policy formulation, so I have to state the disclaimer that my views as I state them are not really capable of being attributed to the ABA, which really requires a lot of procedures to go through, or the ABA IPL Section. We have had a task force which I appointed upon turning to the FTC report that coordinated a lot of different committees, and we have had a lot of really good and hard work done at the committee level, resulting in resolutions in some cases in the various recommendations, and some other cases - not resolutions, but reports. The post-grant opposition procedure is one that the developing view, as I will call it, is to support. We have a resolution that will be adopted,
finally, or voted down, and that is always possible, at
our June summer conference in Toronto, favoring in
principle legislation creating a post-grant Opposition
Review procedure in which the patentability of issued
claims without any limitation on issues subject to the
procedure, can be reviewed by Administrative Patent
Judges, the Board of Patent Appeals and Interferences.
And some of the details, obviously, are yet to be
determined. This is a fairly – it is always a major step
when you create a new procedure, and I do not think we
know exactly what it is going to look like yet, or what
we would like it to look like yet, but the suggestions in
the deliberations and the developing views include filing
an opposition within nine months of the date of the
patent grant, allowing all patentability issues to be
challenged, not just obviousness, or non-obviousness and
novelty, to provide complete inter-partes proceedings,
some discovery – we do not quite know how much discovery
because that affects a great deal the cost and the length
of time that it is going to take. The view is that we
would like to see such a challenge conclude within a year
and to have appeal ability by any of the parties to the
Court of Appeals for the Federal Circuit. So that is
what I will say about that.

PROFESSOR SHAPIRO: Would you say it is the
position - the tentative position, that will go without
saying - that a cost-effective post-grant review
procedure is really crucial to having the Patent System
work properly, and we do not have that now?

MR. SACOFF: Well, I think that is a little
bit of an overstatement to what the resolution is. This
is a procedure that we are in favor of, and we would not
be in the favor of it if it were not considered an
improvement to the Patent System. I mean, we start
putting adjectives about crucial and indispensable, and I
am not sure that those are going to be in our position,
but we favor it.

PROFESSOR SHAPIRO: Okay, fair enough. I
would like to go next to Gary Griswold, then.

MR. GRISWOLD: Gary Griswold, I am
representing the AIPLA. I am past President of AIPLA,
but in this particular circumstance, I was Chair of the
committee that put together the report that responds to
all of the recommendations of the FTC Report. We are
further along than ABA, apparently. We have the report
in its basically final form, closely ready to go. I
mean, we are about ready to push the button. We have - I
can tell you, and I won’t give you any of the details,
whatever you want, we support basically six and a half of
these guys and we don’t support three and a half. So I
can tell you which ones those are if you want me to later.

PROFESSOR SHAPIRO: Yeah, why don’t we do that? We will go through one by one, but let’s focus on the first proposal now.

MR. GRISWOLD: And that is what I was going to do.

PROFESSOR SHAPIRO: Good.

MR. GRISWOLD: Thank you. And what I will say on that is that we do support oppositions. We have developed the details of a proposal relative to how opposition should be handled, and that was approved by the Board this week. It does involve a nine month period for bringing the opposition. We do not believe that this process should be available, except on agreement of the parties throughout the life of the patent. In other words, we want to walk before we run. Maybe, Bob, you have approval now and you can give us the full scoop -- it may be the Chair of the ABA calling you, okay! But anyway, let me go on. Our deal is that we would not include all issues of patentability, only those issues that can reasonably be tried without significant discovery, and those are 102, 103 based on patents and publications, 112, first and second paragraph, no best mode, non-statutory double patenting, it would be based
on the written record. There would be cross examination of the affiants put in the evidence. There would be a hearing before the Administrative Judge. There would be a limited estoppel. I will not get into every detail because I am sure you do not want to hear that, but it will be coming out shortly and we do have a well-developed, well-vetted proposal that we think is ready for prime time very soon.

PROFESSOR SHAPIRO: Thank you, Gary. Next, Herb Wamsley.

MR. WAMSLEY: Thank you, Carl. I should say who Intellectual Property Owners Association is, particularly since three members of the Board of Directors are on this panel, which causes me to state things carefully. As we go through these resolutions, I will be giving our tentative view, which has passed the first review by the Board, which will be reviewed again by the Board next week. IPO’s members, which really overlap as a practical matter a lot with the ABA and the AIPLA, but the members of the Board are Chief Patent Counsel of larger companies primarily, including Microsoft and 3M and Intel. We think we are in favor of post-grant Opposition. We are still trying to sort out the details, not quite as far along as AIPLA, but we are definitely in favor of it. We are looking at two models,
I guess, mainly, which are similar, the FTC report and the Patent and Trademark Offices 21st Century Strategic Plan, it was called. It was issued in 2002, which has a very detailed proposal. I think there is not complete consensus yet on whether the time period for opposing a patent post-grant should be a limited period such as nine months or a year, or whether it should be a longer period. And there is a lot of variations on that. As you may have heard earlier in the program, I was not here this morning, but the PTO, for example, proposed a period for opposing for several months post-grant plus the opportunity to propose any time during the life of the patent, and I believe within a four-month period after you are subjected to a reasonable apprehension of suit. So that is one area. I think another area we are still trying to sort out is just how broad these proceedings should be, how many issues you should be able to raise, and what the costs should be. But I think IPO members — and my feeling would be large U.S. patent holders, in general, seem to have a pretty broad consensus on needing a procedure post-grant that is substantially more expansive than the inter-partes re-examination proceeding that was enacted in the American Inventors Protection Act in 1999. And on where we are at, I would say that IPO — at least ten recommendations, the post-grant Opposition
is one of our big three, at least, if not the biggest
one. And I believe I have finished within my time.

PROFESSOR SHAPIRO: Good, thank you. I would
like to turn next to Jeff Kushan who represents BIO.

MR. KUSHAN: Thank you. BIO is a trade
association that represents the biotechnology industry,
has a membership of about a thousand companies, and the
only common trait about those companies, really 85
percent of them, is that they do nothing but lose money.
And the only asset that they have is either a patent
application or a patent, and so they are a bit sensitive
about patent issues, probably more sensitive than any
other industry. On the issue of post-grant Opposition,
most of the members of BIO strongly support a rigorous
post-grant Opposition procedure. That view is not
uniform and, in large part, that non-uniformity is
because the critical issue is what are the attributes of
the system that have to be there and have to be
identified before we can actually have a consensus view?
And, in fact, most of the discussion within BIO so far
has been to start to focus in on those attributes of the
system. Many of the things you heard earlier today and
that have been repeated are the variables that are in
discussion now. I think one – I can touch on a few
things which – and give you some insight into the
deliberative process that is going on now. One issue is
and it was foreshadowed in the comments from Eli Lilly
this morning – is that, unlike most industries, there is
a special need for certainty in the area of
pharmaceuticals and biotech inventions, and that is, when
you are about to launch a product, or when you are about
to build a plant, or when you are at that really critical
part of development down the path, you do not want to
have the patent thrown back to the Patent Office in a
proceeding that could end up putting a large cloud over
that investment. And so one variable seems to be the
period of time during which one can raise issues, and I
would say, at least with regard to the non-prior art
based issues, there seems to be a view that about a year
or a little bit longer than that might be the window that
should be appropriate. It is important in this process
to appreciate that, you know, you are going to have a
trade-off in that time limit because most biotech
inventions are not going to have a known commercial value
in a year, but there is still enough monitoring activity
that you can engage in to make a step in. A second issue
that seems to be supported is to actually extend the
issues to 112 grounds. That topic, in particular, is a
dominant topic for many patent applications in the
biotech sector where there is not a lot of prior art –
well, there is a fair amount of prior art, but the main
issue in a lot of cases is 112. The third variable that
seems to be supported is the need to have better
management of the proceeding, and here it is kind of a
trade-off right now because many of our members want to
have a simplified procedure for simple issues that does
not make it a really expensive proceeding like
litigation, yet on – you also want enough adult
supervision in the proceeding so that you know you are
not just going to get a re-hash of the original
examination. And then the last issue that we are
struggling with is, there has been some debate about, you
know, how to make the proceeding more rigorous, and that
goes into the area of discovery-like activity in a
proceeding. And many of our members, a small minority in
total, but many of our members have lived through enough
litigation now that they don’t want to see the torture of
litigation imported into a Patent Office environment.

And so, while there is a legitimate need to
have experts and deposition of experts, there is a great
reticence about turning it into a proceeding that, you
know, you are going to have essentially replicated the
cost of litigation for no benefit in the Patent and
Trademark Office. I am going to stop at that point
because we are still struggling with a lot of other
parameters that have not been talked about in the discussions so far, and we do not really have uniform views.

I also, like others in the industry posture, many of the members sitting in the audience are next to me, and so I want to just reserve the right to jump in, but they may be my own views and not that of BIO.

PROFESSOR SHAPIRO: Okay, thank you, Jeff. Next, Ron Myrick who represents USCIB.

MR. MYRICK: Thank you very much. First, I would like to make a little disclaimer and my views here are being expressed as my own – except where I specifically attribute them to the USCIB, they are not the views of my firm or any client. I am delighted to talk about this issue. I think it is an easy issue in one sense to support. It is hard as the dickens to make happen. When I got started in this profession a rather long time ago, we were privileged to be provided something called reconsideration at that time, a very long time ago, some of you will remember it. It was a pilot program. It was the forerunner to re-examination. So we have been working on making this kind of post-grant review work for a very long time. Have we succeeded? I do not think so. And I think the devil is in the details, absolutely. The comments that Jeff just made
about cost are going to be determinative. The real success of any post-grant procedure is going to be determined by whether or not it is used. And Mr. or Dr. Harhoff’s comments this morning were very worthwhile in regard to the success in Europe, however, he also made a passing comment, which I think - I hope I quote correctly - in that the numbers or percentages have been going down in Europe. Is that correct? Yes. And it is an important note because, frankly, I know some senior IP counsel of some major companies in Europe, and they have abandoned the Opposition System in Europe. And why? Because they paint a target on themselves. So I think one of the issues, and it has not even been addressed in the panels this morning, or thus far, is how do you handle the fact that having raised your hand to be an opposer, you have told the other side how interested you are in their patent, and you may not win that opposition. So it is a very important issue. I think the other issue that is determining whether or not this will be a successful system that we propose will be substantially the issue of estoppel, whether or not you are going to be bound by what comes of this result and permanently bound, perhaps. Somebody mentioned res judicata. I do not thing that res judicata is going to get very far if you want to be able to use this system and make it a success.
So I think there are lots of devilish details to be decided in connection with opposition that will determine entirely whether it is a success. And, remember, it is only a success if people really use it, and we have been trying for nearly 30 years to make reconsideration, then re-examination work, and, still, nobody uses it.

PROFESSOR SHAPIRO: Thank you, Ron. I want to just turn briefly to a few of the other panelists so they can indicate where their companies are at. Bart, where is Microsoft on this?

MR. EPPENAUER: We do favor this [off mike] and the devil is going to be in the details, and we want to be able to use this procedure and, clearly, as Ron points out, within a one year time frame if we start opposing patents, that will raise a flag that we are very interested in, you know, if we lose that, I am sure we will be dealing with it for a while. What I do like is the PTO’s view that if you have a reasonable apprehension of suit somewhere down the road, from a lack of patent time, you can engage in and you are already sort of at issue at that point anyway, so that would be a real strong mechanism that we would support.

PROFESSOR SHAPIRO: Okay, Sean?

MR. JOHNSTON: Yeah, very briefly because I commented before, we are supportive of this. I agree
with Ron, it has got to be a system that is economical, it has also got to be fast and efficient or, you know, we will just be repeating the litigation process all over again.

PROFESSOR SHAPIRO: But do you want to limit the time to the nine months or the one year?

MR. JOHNSTON: No, I think – yes, I think that is a wise component of the overall process, to put some time limits and nine to 12 months seems like a reasonable one, somewhat akin to what the European system is.

PROFESSOR SHAPIRO: Okay. David, do you want to speak for Intel on this?

MR. SIMON: Sure. I think what you have is a real dichotomy between the Bio and Pharma and the Electronics, Software and probably much other, is generally no reason for me to challenge a patent unless it becomes a problem for me, and because otherwise I would be challenging lots of patents that I have no incentive to challenge in the ordinary course, other than to paint that big target, as Ron said. So if, in the general case, if it has got a time limit, I won’t use it much unless there is somebody I know who is going to be a problem for me out of the chute, and this is my best shot at them. If there is no time limit, I will use it a lot, and I think that is the real consideration. And I
understand that the incentives in Bio and Pharma are very
different, and it may even be that what we need is a two-
industry approach, or multi-industry approach.

PROFESSOR SHAPIRO: Would it help if the
issues – somebody said maybe prior art could be handled
one way and other issues another way, would that help
bridge this gap between the different industries?

MR. KUSHAN: Well, I mean, this is a good
topic to engage on because I think it is something we
have to start out. I think the 112 issues may be more
time relevant, so even if we looked back five years, a
written description as we have seen and applied five
years ago compared to what it is today is very different
as a legal principal, and also evidence in that area may
change over time. I think one question is, you know,
what we do not want in the pharma bio industry is to have
a crippled system to fight about our patents, take over
the patent, and dispose of it in the PTO. And so maybe
the question is, if you allow challenges after some
window that we know we can take it back to a District
Court and fight there because it is too commercially
important to us to leave it in the hands of the PTO with
the limited discovery or limited proceedings around it.
And I do not know if that is something which is going to
be digestible to the software and non-biotech sector, but
I think the critical factor is, you know, you just do not want to have your patent in the Patent Office when you have spent $800 million getting a drug and you are about to launch. It is just a very uncomfortable discussion to have with your CEO. So it may be not the best fear, but it is a legitimate fear of these companies, and we have to find some kind of reality in limiting the access.

PROFESSOR SHAPIRO: Well, I think that shows that the estoppel issues, the ability to appeal relates to the time period. I mean, there is a complex set of factors that has to be crafted. We are not going to be able to do that now, but some of these associations that have grappled with this, I think, it will be a really good next step to see what they are doing. Does anybody else want to –

MR. GRISWOLD: If I could just make one comment. The reality of all this when we debated this for AIPLA was can we put together a proposal that actually has legs and can get through Congress, because we have been involved heavily in the legislative front for a long time and the AIPA was a big event. I do not think we have anybody here that is an independent inventor. I can tell you that there are issues here that are compromised based on what we think would be acceptable in the independent inventing community. For
example, a limited estoppel. And also the idea of when
you can bring these activities. So you have to keep in
mind what is passable and what you can get started with,
and the other piece is I still believe it is important
that we walk before we run. We heard a lot about how the
PTO operates over the last - at least this morning, and I
think we better be careful that we have a process in
place in a nine-month period that works, and then maybe
we can take it on until later on in the patent’s life.
That is our view.

PROFESSOR SHAPIRO: Last comment?

MR. MONAHAN: Just a very quick comment. The
other issue that I think is important, at least from our
perspective, is retroactivity, assuming you can do that,
because if I cannot deal with patents that have been
applied for or issued, say, since ’95 or ’92 or ’93, then
before there was a second-look policy, a lot of my
problems are coming from a particular time frame, so I
think I need to be able to apply this, whatever these
procedures are, to those. And then, going forward,
perhaps there would be a time limit. I actually like the
idea of a time limit of some sort, but having basically
“all bets are off” once somebody threatens me, and then,
what was the reasonable apprehension of litigation, I
would have some rights triggered at that point.
PROFESSOR SHAPIRO: Okay. We have got nine more of these, although we are not going to do every single one. So let’s move on to the second FTC proposal – well, let’s summarize. My sense, just to try to wrap that up, there is a lot of incentive to do something, there is probably areas where people can come together, but work needs to be done to get that drafted, something that is going to work politically, and we will be talking at the end how to make things happen. Okay? So on to 2. The second proposal is: “To enact legislation to specify that challenges to the validity of a patent are to be determined based on a preponderance of the evidence.” Of course, rather than the current clear and convincing evidence. Well, again, we have heard about that earlier today. I think many people would think – most people think this is a very big deal. There are few people that think it would not matter, but I think most people think it would be a very big deal. I think part of his impassioned plea this morning, Professor Lemley I think presented very nicely the argument in favor of this, which I would summarize as saying, “Why should patents get that big presumption if it is such a quick look going on now?” Okay? Now, that raises the issue of how this proposal interacts with other proposals. Okay? I think one could take the reasonable view, if you fix a
lot of the other problems so the patent quality goes up, then the patents would - then there would be a stronger presumption - maybe clear and convincing - would be warranted, but it is not warranted now. So we get into interactions. I think people would say strong medicine and the question is, you know, is it really - do we need to do that, or maybe we should work on other pieces first? Okay. I want to be very quick -

MR. GRISWOLD: I would like to comment on this because no one has come forward with the comments that AIPLA - how they analyzed this. And it actually is kind of relevant to this whole discussion on how we looked at this issue. And I would be interested - or you could call on whoever you want, but I would like - I think we ought to get out in front on what we really have today because nobody - at least the way our people that have looked at this, no one today stated this the way our people analyzed this.

PROFESSOR SHAPIRO: Well, why don’t you - so go for it. Tell us - I think there is a fair bit of consensus among the associations about this, not the details, but not being thrilled with this proposal, so if you could say why and where you guys are at, and then actually -

MR. GRISWOLD: I can sum -
PROFESSOR SHAPIRO: Go for it.

MR. GRISWOLD: I will sum it up quickly.

PROFESSOR SHAPIRO: But there is no precedent that interrupting me means you get time.

MR. GRISWOLD: I only did it because I thought it would be helpful. What we didn’t hear today, unless I was missing it, are the people that looked in this for the AIPLA, which does not support this proposal, by the way, and you have to separate the presumption of validity from Burden of Proof. Okay? Now, we are looking at the Burden of Proof, and that is what this recommendation is about. Our people say that, today, the standard for factual predicate for invalidity is clear and convincing. Okay? The standard for the factual predicate is clear and convincing. The standard for the persuasive force of that factual predicate is preponderance. That is today. So this is what our group said, okay? Now, I know you do not agree with that, Mark, perhaps. But I want to put this out here. And our people would say that this would convert, they believe, the standard for the factual predicate to preponderance, and move it from clear and convincing. So I wanted to get that out there. And the reason I interrupted you is because I think that may stir things up a little bit.

PROFESSOR SHAPIRO: Okay, that is fine. It
was helpful, I agree with you. Bob, maybe you can talk
about what the ABA – well, there are probably sections
out on this --

MR. SACOFF: Basically that is right, I mean, to the extent that looking into our membership is a
window into the IP lawyer community, I think you will
find that this is probably one of the more controversial
recommendations in the report.

PROFESSOR SHAPIRO: That means you are against it, right?

MR. SACOFF: Yeah, well, the developing view in the ABA IP Section, I think, is to oppose this. I
think the general thinking is that lowering the burden of proof for the facts, as Gary correctly points out, lowers
the confidence factor and raises the unpredictability factor for all patents and not just patents that we might
call questionable or dubious. And the feeling is in our section that, when correctly applied, the current
standard is appropriate and conducive to the right level of certainty.

PROFESSOR SHAPIRO: Okay. And my sense, talking with other people, is that other organizations that are similarly placed – I think, isn’t that right, Herb, for IPO?

MR. WAMSLEY: That is right, Carl. We are
against it, too. You know, basically we are into fixing
other things in the system and trying to fix them fast,
and we are into fixing the Patent and Trademark Office,
Willfulness, post-grant. And those are things that can
be done, but this one we are against.

PROFESSOR SHAPIRO: Jeff, very quickly – from
BIO.

MR. KUSHAN: BIO has a lot of concern about
this one, so we are opposed. I have to slip in a couple
of rebuttals to Mark’s characterization earlier and I
will do this as quickly as I can. First, one of the big
problems we face in the Patent Office is they chop our
patent applications up into like a hundred separate
applications. So if you take his math, that is 1,700
hours per invention that they are getting for each one of
our inventions of processing time, not 17. And that is
an important factor to keep in mind. The second thing is
there are about 3 million patents, 4 million patents,
enforced today, and about 5,000 of them are in litigation
right now, and we have a lot of licensing behavior which
is predicated on the presumption of validity. Now, I
think one thing that we have not really –

PROFESSOR SHAPIRO: I could see why the patent
holder is in a stronger position because of the
presumption, but what do you mean “predicated on?”
MR. KUSHAN: Well, it is predicated on—well, in our sector, quality is not a big problem in the sense that if you have—we certainly have issues of validity of patents, but it is not perceived to be as bad as other sectors. And I will say this because we have a better prior art foundation, all of our art is in the literature, our issues are fairly mature, and, again, the Patent Office is chopping up our patent applications into microscopic pieces, and so a patent examiner gets 25 hours to take a little tiny piece in our world, he is going to get a pretty good answer. And in that setting we feel generally comfortable that many of the patents that get out are going to be valid, and I think that concerns that other sectors have may not be as pervasive as they are on the biotech sector.

PROFESSOR SHAPIRO: Okay, so the presumption you feel maybe more warranted in your area. So only one man can stand up and tell us, well, besides Mark Lemley already did, Bob, tell us what—

MR. WAMSLEY: No, I cannot say anything bad to Mark and I will just say that 1,700 hours under the law if they are dividing up your patent applications, those are separate inventions. And I just can’t say it any better than Mark.

MR. MYRICK: This is one position that USCIB
does have. I do not necessarily agree with it fully myself, but I want to state it on the record that USCIB is against Recommendation 2, however, I do believe personally now that, to the extent that clear and convincing applies to something that is unexamined, it is unjustifiable, so I think there is a balance here that can be drawn, but for the record, I need to say that USCIB is against this provision.

PROFESSOR SHAPIRO: Let’s go on then, I think we got a good sense of there is sort of the lack of support, at least in those quarters. Number 3 having to do with obviousness, “Tighten certain legal standards used to evaluate whether a patent is obvious, and this touches on the commercial success test and the suggestion test were both raised here. Maybe Bob, you wanted to talk about this one, I think, in terms of –

MR. BARR: I do not think that not a presumption of validity. I just want to say on that, going back on that and just say, a) that is a, you know, be reminded that is not in the statute – I mean, excuse me, the presumption of validity is in the statute, a burden of proof is not, so a judicial creation that I do think is unjustified. The reason I went back to that is because people have said, “Well, let’s fix the other stuff first.” This is pretty easy to fix, the burden of
proof, if we decide to fix it. The issues around
obviousness are much harder to fix, I think. It is
harder, and we had a really good panel this morning on
it. I learned some things and some new ideas, but I do
think the standard itself as written is correct. I think
as applied by the Court and the Patent Office as told to
apply it by the Courts, because I do not blame the Patent
Office, I know they try to reject some things that they
think are obvious, and then the court reverses them, so I
will try to only make one enemy with these comments – one
institutional enemy. But I think it is - in my mind,
when you read it, it is a subjective standard, and the
attempt to apply objective tests to it have led to a
lowering of the standard that has caused - it is The
basic cause of the problem that we face of people of
ordinary skill in the art - don’t let my engineers know I
called them that, by people in the art sort of stumbling
into potential infringements of patents that should not
have issued, because it should not have worked that way.

PROFESSOR SHAPIRO: Let’s again hear from the
association representatives about this obviousness
proposal, maybe Gary, want to do this again? Pretty
briefly, but –

MR. GRISWOLD: I will do it briefly. Our view
on that one was that we put this in a support category
because, and the way we looked at it, it really was not
advocating a change in existing law, and if is not to
change existing law, then we are okay with it. But if it
is a change in existing law, put it in the case law
because there are some things you get off the
reservation, but if you are going to get what the basic
law is on this, the case law —

PROFESSOR SHAPIRO: Wait, it says tighten
certain legal standards. Are you in favor of tightening
the standards? Or do you just want to leave them where
they are?

MR. GRISWOLD: I want them to be applied the
way I think most of us think the existing law is, and
that is what our view was. You will see it in the paper.
That is the way of art.

PROFESSOR SHAPIRO: Okay, Bob?

MR. SACOFF: We do not favor changing existing
law.

PROFESSOR SHAPIRO: Or tightening standards?

MR. SACOFF: We think the standards are
correct and, if applied correctly, that is the way it
ought to be. Okay?

PROFESSOR SHAPIRO: Herb, do you want to talk
some for IPO on this?

MR. WAMSLEY: We do not favor changing what we
have perceived to be the case law currently. Now, let’s say on that suggestion to combine issues, it appeared to some of us that, just about the time the Federal Trade Commission started its hearings a couple years ago, there were two or three cases that came out of the Federal Circuit that might have been aberrations, and those cases appeared to say that you had to have an explicit teaching of a motivation to combine in the references. But I think even the final report of the FTC has a footnote or a clause in it acknowledging that some of the cases that came a little later seem to be swinging back. And I think if you look at the group of the cases decided from the Federal Circuit over the last two, three or four years, or at least that is what some of our people think, is that they were really consistent with what the FTC Report is recommending. So we do not see a need to change anything.

PROFESSOR SHAPIRO: Okay, I think we will leave that wonderful clarity on that question and move on to - I want to kind of lump together to some degree the fourth and fifth proposals. The fourth one says “provide adequate funding for the PTO.” Now I found very few people who favor inadequate funding for the PTO, and the National Academy of Science certainly is on board here, too, with supporting. So the question, I think it really
is how much money? What does adequate mean? Should we think of that in terms of fee diversion, or what? But I think the bigger set of issues are, are we going to link resources to performance, or some sort of reform, or pressure? Is there a quid pro quo? Because people won’t say, well, it is fine to give them more money because they are overworked and these workload statistics are pretty clear, but if they are just going to issue you more questionable patents, I do not want to give them more money. So I just want to wrap the funding issue together with Proposal 5 talks about modifying certain PTO rules and implementing positions of the PTO’s 21st Century Strategic Plan. So I want to kind of frame that together. Just a quote from the 21st Century Strategic Plan, it says, “Today the USPTO is under siege. Patent application filings have increased dramatically throughout the world. There are an estimated 7 million pending applications in the world’s examination pipeline, and the annual workload growth in the previous decade was in the range of 20-30 percent. Technology is becoming increasingly complex, and demands from customers - I think that is patent applicants, by the way, for higher quality products and services have escalated.” And they talk about this plan will make them agile and productive. I fear that productive might mean more patents, but I am
not sure about that. Okay. And they do say that the
U.S. industry and the public will benefit from stronger,
more enforceable intellectual property rights. So there
is a little bit of flavor. And there is a whole set of
proposal questions. Many people here know better than I
do what they propose to do and would like to do with more
resources. And I think you have heard about this notion
that there is a culture maybe that they are trying to
issue patents, the incentive structure there. So I guess
I want to push everybody a little bit into not just the
money, but whether, in addition to implementing their
plans, kind of how we can really ensure in that process
that patent quality goes up. Okay, ultimately we are
here talking largely at this stage is patent quality.
Okay, and there are a series of sub-proposals here, I
won’t read them, okay? But I will let people speak to
them as they will. I would like to start with Herb. I
know you have been close to this process, certainly the
funding side of it. We are moving along in time, so I am
going to ask everybody to be really crisp here, and I
will start using the bell more, and it is not personal,
but it’s just I’ve got to keep us moving.

MR. WAMSLEY: Well, this is one of our
favorites at our association. We do lobbying and this is
our number 1 lobbying issue right now. And I think this
is one where something can be done to change the Patent System this year – there is a bill that is already past the House and it is in the Senate, HR1561, and that is a bill that brings about $200 million additional into the PTO, it has a provision to stop Congress from diverting that money to unrelated government programs. And the people that are working on this, Carl, in answer to your point, consider that their support for this bill is contingent on the Patent and Trademark Office improving quality in the several ways that the PTO has outlined in our 21st Century Strategic Plan. That plan is very detailed, it has some things mentioned here like the second pair of eyes, but they also are calling for money for more recruiting of talented examiners, for better training of examiners, for re-certification of the competence of examiners, and a number of other things. And we think the appropriators and the Judiciary Committees in Congress are looking at this as a commitment by the Patent and Trademark Office to do these things if the bill passes, and I do not think that giving this money means more patents, although it does mean working off this terrible backlog in the electronics areas, but it means more quality, too.

Professor Shapiro: Okay, Gary? I know you are close, as well, to this process.
MR. GRISWOLD: Yeah, I have personally spent a lot of time on this legislation and also on the 21st Century Strategic Plan. Definitely, we would not support this extra funding if it wasn't because we thought the 21st Century Plan would turn into something, and we will be watching every step of the way. So that is the way we look at it. Relative to any combined - so we support this - we support an end of diversion. We will not accept increasing our fees 15-25 percent, which is substantial for everybody, without having an end to diversion. That money has to go to the PTO to fix the PTO, and that fix is in there. Looking at Recommendation 5 which you mentioned, the second pair of eyes, and the - we supported the second pair of eyes and the forging the balance between the public interest and the applicant’s interest, and we always looked at it that way, but I think there was a period where the PTO got a little off on a tangent of talking about customers. The public is a big customer at PTO, so, anyway, that is the AIPLA.

PROFESSOR SHAPIRO: Okay. My polling of the panel is that everybody is really there in terms of more resources for the PTO and, yeah, it is a question about how to make sure they are used well. With that framing, does anybody else here want to just have a quick - Ron?

MR. MYRICK: Just a quick one. One thing that
is not in the Strategic Plan, the 21st Century Strategic Plan, at least explicitly, and I think it is implicitly, in fact, avoided. As Mark well described today, and I think as was mentioned earlier by Jeff, in most of the Org units, they have 17 hours to do the entire job as examiners. In the bio art units, I think they get 25. That is an awfully little amount of time to be able to do the job they have to do. The 21st Century Strategic Plan does not address the fact that examiners need more time. And I would personally like to see - and this is a personal opinion - some reallocation of some of those resources to give examiners more time to do the job because I am not sure how you get more quality if you are trying to jam more stuff through the same mental pipes in the same amount of time.

PROFESSOR SHAPIRO: And I would just point out that, of course, if you do this post-grant review procedure, that is going to take a bunch of resources, too, so it puts a little more pressure on it. Bob -

MR. SACOFF: I just wanted to add a quick note on the anti-diversion. Everybody lines up on that, but since this is the one thing we actually do have ABA policy on, and I wanted to qualify myself, I wanted to point out that calling for an end to the diversion of the PTO user generated fees not only is a policy of the ABA...
IPL Section, it actually has been escalated to a policy of the American Bar Association, all 420 or whatever they are thousand, the lawyers, and it was actually escalated to one of the 11 or 12 legislative priorities of the American Bar Association, you know, along with death penalty issues and everything else. That is how important this is viewed in the ABA as a matter of jobs in the economy.

PROFESSOR SHAPIRO: And I won’t ask whose jobs. Jeff?

MR. KUSHAN: I don’t want to prolong this, but we do have a slightly different perspective in BIO than in some of the other trade associations on some of the minutiae of this question. As I mentioned before, there needs to be - in the biotech area, we are being subjected to a process which yields way too many patent applications sitting inside the Patent Office, and that has created an overhead and a backlog which is essentially artificial, and so there needs to be a more coherent look at how the Patent Office has structured its examination policies to get a better work product out.

There are two elements of this, one which we have great passion about is this issue of dividing of the applications unnecessarily. That is very inefficient to take and essentially segment over time and among
different examiners a single invention for examination.
The second thing which has kind of dropped off the radar screen, which we think is unfortunate, is the idea of deferred examination, or non-mandatory examination of every single patent application that comes in. There is a huge wave of patent applications that lands at the Patent Office every year, and very few of them two years out, or one year out, have the same passion of commercial value for the applicant.

PROFESSOR SHAPIRO: So are you willing to pay more to have yours sped up?

MR. KUSHAN: Well, that is one model that many countries follow. And the question that we are struggling with, and obviously there is a balance of letting these things languish as land mines in the Patent Office, which we very much do not want to have, but at the same time, if there were an obligation on a patent applicant to pay for - to trigger the examination within a certain period of time, by default, a certain percentage of the work the PTO has to do would drop off, drop off their workload. And so that kind of thinking needs to be done and it has not yet been done by the FTC.

PROFESSOR SHAPIRO: Okay. Just to frame the whole pendency question, in the 21st Century Strategic
Plan, the PTO says they hope to achieve 27 months overall patent pendency as a goal by 2008. I was not impressed particularly, but I guess it is a lot of work, so that is the sort of thing we are talking about anyhow. So it is not about to go away. Kulpreet, you had a quick comment here?

MR. RANA: Yeah, just going back to some of the comments that were said yesterday, as well, I think a lot of people here are in favor of the increased funding, and Carl, to your question about whether it should be linked to some requirements that the PTO actually improve its process, I would hope part of what we would be able to do is to actually get the PTO to buy in to some of the changes that we all think need to be made. And rather than trying to motivate them with specific requirements, if we had buy-in, I would think that would be a better process, or in combination.

PROFESSOR SHAPIRO: Okay, let me move on. I will glide over number 6 and go to number 7. Number 7 says, “To enact legislation to require publication of all patent applications 18 months after filing,” and to remind you all that the 1999 legislation required — ending up causing publication of apparently about 90 percent of the patent applications, according to the FTC’s report, and this would then kind of do the extra

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ten percent. Rather than go around the table, I will represent to you that everybody here is in favor of this. There is a range between “in favor” and “strongly in favor.” So I think that is helpful. Of course, part of this is to prevent submarine tactics and hold-up. It helps promote the disclosure process. Ron, I think you had an interesting point about how we can deal with the concern that somebody might file a patent, the application would be disclosed, then the patent would get rejected and they would say, “Oh, this is really not fair. I had to disclose all that stuff and I didn’t get anything in return.” If you remember that, I thought it was a very good point.

MR. MYRICK: I do remember. There is a quid pro quo here. People are giving disclosure of their vital information which they otherwise could keep as a trade secret for some period of time, an exchange for a patent. However, with the current pendency, or the target pendency at 27 months, 2008, they may not even know on the date of 18 months that they have to have their application published, whether or not they are going to get any patent at all. And I think it is incumbent upon the system to not put the applicants in the bind of having to bet on the outcome. They do not know whether they are going to get an examination that is
going to give them a patent when they have to let that
disclosure go, so they may have to let it go in the dark,
and that is not fair. I think what we should be
targeting is that, first, at least the first office
action, telling them whether or not they have got
anything at all in prospect to be provided to them
sufficiently in advance of the 18 month publication date
so that they can decide whether or not they want that
publication to go forward, or would like to withdraw the
case. Now, that is only fair. And because they are
giving up significant rights by that publication and they
do not know anything at this time, at least in some arts,
particularly in the longer pendency arts such as the
computer arts and the information arts. So it is I think
a challenge to the system to improve the system at least
that much – in many of the arts. By the way, I have to
say, having been with a rather large company that Todd
mentioned recently, that we did not have a lot of this
problem in many of the businesses we ran. Of course, we
ran a lot of businesses, but I think it is a problem that
is endemic in some of the information technology
businesses.

PROFESSOR SHAPIRO: Okay. Do you want to add
one thing to that?

MR. BARR: Although I agree it is a problem, I
always thought it was a great feature when I was a
prosecutor that we could just tell the client they could
decide at the end whether to give up their trade secrets,
but, Ron, why if it is something valuable, then the
chances of getting a patent are pretty high? So if your
assumption is they are giving up something valuable, why
wouldn’t they get a patent?

MR. MYRICK: It depends upon whether or not
they know how valuable it is going to be at the time they
have to make that decision.

MR. SIMON: If I may? I take a very different
view than Ron because, in my view, the function of the
Patent System is to get technology out to society. And
people are taking up a public resource, which is I
believe a very valuable public resource, and if you are
saying, “Well, you can start playing and then decide
based on where you think it is going,” I think you are
really undermining one of the features of the Patent
Office, and this is a real problem because a lot of
technology changes very fast, and if you don’t get the
stuff out fast, you are going to have a real problem.

PROFESSOR SHAPIRO: Well, like I said, I view
that as sort of a nuance, possible angle, and the one
area where somebody might object to this, I guess, it
seemed to me, and then there is some back and forth on
that. But overall, extremely strong support for that
and, again, many patents have been subject to this
already so we have evidence that it does not appear to be
causing problems. So this is kind of clean it up and get
it done for 100 percent.

Proposal 8 has to do with prior use rights, “To
enact legislation to create intervening or prior use
rights to protect parties from infringement allegations
that rely on certain patent claims first introduced in a
continuing or other similar application.” Okay? And
there has been some discussion about this. I think a
fair bit of concern about continuation practice, and how
it can ensnare companies and be part of hold-up problems,
I again want to keep it pretty quick, but I am happy to
say – and my own research is on prior use rights, so I am
particularly interested in this area – it seems like
there is really almost unanimous support for this, and I
would like to have a few of the folks just explain where
they are at, who have crafted proposals. Gary, I know
you –

MR. GRISWOLD: Yeah, I have been a prior use
buff since the early 90's when actually the senate first
passed a bill that was a broad prior user right, which
did not pass the House in time. But, the AIPLA view on
this is that we don’t believe there should be a prior use
right that attaches to something – a use that begins after the effective filing date. We believe that the prior user right statute today that has some limitations on subject matter and has a requirement that there be a one-year reduction in practice one year prior to the filing date, and that it does not include substantial preparation, that the statute should be changed to fix those things. But we don’t believe in moving – we don’t support moving the date downstream so that would occur during the prosecution. You get into all sorts of unintended consequences where we are not even sure of, including more derivation questions, and so we don’t support that. We think that the publication of patent applications helps us – all applications will help us on the issue of some patent claims showing up later that will be a problem, not perfectly, but that is our direction and belief.

PROFESSOR SHAPIRO: Okay. Bob, want to talk to the ABA?

MR. SACOFF: I think we are pretty consistent with that. Just in the interest of brevity, let me read you the pending resolution that we have got subject to adoption. “It is resolved that the Section supports in principle the commercial use, including substantial preparations for commercial use should be recognized as a
personal defense to patent infringement if undertaken in
good faith by a person who has reduced the patented
invention of practice prior to the effective filing date
of the patent. Specifically, we support an amendment to
the American Inventors Protection Act in ’99 providing
for such rights to remove restrictions on the enjoyment
of such rights inconsistent with this principle.” And
those are some of the limitations that Gary was referring
to.

PROFESSOR SHAPIRO: Okay. I don’t know
whether any of the industry company representatives –
again, I heard a lot of favorable view on this. Anybody
particularly feel, maybe who hasn’t spoken as much, or do
you want to weigh in here?

MR. DICKINSON: I will just say, tentatively,
we are in agreement with the other associations. And
another point is that the type of prior user right that
Gary Griswold is talking about, which is somewhat
different from what is in the FTC report is what you have
in several countries abroad now and that has worked well
and we would like to see the more limited prior user
right that was in the ’99 Act expanded that way.

PROFESSOR SHAPIRO: So, I think we have a lot
of affirmation here for what the FTC is proposing.

MR. BARR: What are you saying? You are
saying that the industry representatives support it, but
the organizational ones don’t. Is that what you are
saying?

PROFESSOR SHAPIRO: No.

MR. BARR: What you said is obviously
important, I just heard all the industry organizations
opposed the FTC proposal. Did I get that wrong?

PROFESSOR SHAPIRO: I think that they are all
supporting it.

MR. GRISWOLD: What we support, let us be
clear here - what we support is expanding the present
prior user right, but the present prior user right has
its effective date, the effective filing date of the
patent application. What the FTC’s proposal was to also
provide a prior user right that could occur by activity
prior to broadening claims during the pendency of a
patent application. That part, we do not support because
we are concerned with the unintended consequences of
derivation issues. We do not even know what would happen
there. It apply to gets into a whole bunch of questions
of why a person’s company prosecuted - or an individual
prosecuted a case the way they did, and so we do not
support that piece of it. So we support expanding the
present prior user right, but not changing the date.

PROFESSOR SHAPIRO: Okay, so it wouldn’t just
apply to business methods, it would spike in that
dimension –

MR. GRISWOLD: Yeah, it would apply to
everything.

PROFESSOR SHAPIRO: And you don’t need to do
it one year before the application –

MR. GRISWOLD: Right.

PROFESSOR SHAPIRO: Any time before. You
would support that, but not so much in this continuation
-

MR. GRISWOLD: Yeah, if the claim was not
there and then you had a broadened claim – I even figure
where they have a broadened claim or not, it is a whole
continuous snake pit.

PROFESSOR SHAPIRO: Okay, so I thank you for
helping. I do not think I did make it clear, hopefully
we have got it clear now. Do you want to comment on
that?

MR. BARR: I would like to support the FTC
proposal. I wanted to highlight the difference between
the industry representatives and the organizations.

PROFESSOR SHAPIRO: Any other industry folks
want to say, “Yeah, I really support the FTC” and go that
far, or not, or say anything about it? I am not sure.

MR. KUSHAN: I will mention that I am not
really either in this capacity because BIO is a trade association made up of companies and not necessarily the lawyer associations. This issue is complicated and I don’t know that it can get unqualified support in any reasonable sense, but what you should - I think it is important to pull out the difference that has been pulled out, which is this is talking about vesting a right to any use of an invention after the filing date of a patent, and certainly there are instances where the continuing practice has been abused, but we have got a lot of applications pending now which have been chopped up again by the Patent Office -

PROFESSOR SHAPIRO: I heard about that, yes.

MR. KUSHAN: Sorry to keep going back to that, but, you know, it bleeds over into a lot of different topics, and so I think it is much more complicated than the FTC gave it credit.

PROFESSOR SHAPIRO: Okay. I want to make sure we have enough time for Commissioner Thompson to take us forward from here, so let us move on to 9, the willfulness and I will again read that. “Enact legislation to require as a predicate for liability for willful infringement either actual written notice of infringement from the patentee, or deliberate copying of the patentee’s invention knowing it to be patented.” I
will say – we are going to keep this very brief – that
there is a widespread view that the current willfulness
rule is not working well, it is disrupting the
disclosure, there are people who don’t want to even read
patents, and it gets involved with this whole issue of
when you waive attorney-client privilege. And Mark
Lemley has written a great article on this, like
everything else. So there is a lot of support here. Of
course, we get into the particulars. But I did find, I
mean, in addition to the associations which want to see
some change here, we do have the Knorr-Bramsey case, so a
lot of people are saying, “Well, let’s wait and see
exactly how that plays out and then we’ll see what else
we need,” which seems to me is hard to argue with since
it should happen this year, I guess. We heard a little
bit from some companies – I was impressed with the
strength with which a number of company representatives
felt like this willfulness thing is a real – is a problem
that can be fixed and they want it to be fixed. I don’t
know if you guys want to kind of weigh in on that, but I
heard that a lot and I think that should come through
today, not just from me, but from you guys.

MR. MONAHAN: Yeah, I think it is probably
because this is one of the biggest distortions of the
system. This is one of the greatest imbalances. All of
those – that extra ten percent of applications probably
doesn’t do me much good because I’m afraid to look at
them anyway. I have been threatened with letters with
patent applications, not just patents, so I get to double
my fun. I think that we support some standard that gives
us some certainty. I want to know that something is
required before I am on notice. I want to be able to act
reasonably, I want to be able to act responsibly within
my industry to try to do the right thing. Right now,
there are a million different facts which are brought to
bear and parties attempting to demonstrate willfulness.
Oddly enough, notice is usually not one of them, at least
in my experience. It is usually something which, again
in my experience, was intentionally deceptively
orchestrated by a plaintiff’s lawyer or by a company, and
I am not asking to avoid responsibility; if you think I
am infringing something, just let me know. But when you
get these squirrely letters, or you get invitations to
license which later get conveyed to a jury as a “you must
have known, you must be willful,” that is a problem.
And, of course, the result is that when you do your
settlement analysis, even as tough as we are in fighting
these cases, you have to factor in that additional factor
of, “God, what if the worst thing happens and we get
treble damages?” And, you know, I have been lucky so far
not to see treble damages, but it is a factor which, like
punitive damages in civil cases, I think is out of
control now, particularly in places like Marshall, Texas,
which is why a lot of people are settling cases that are
based upon patents which probably should not have ever
gotten out of the Patent Office.

PROFESSOR SHAPIRO: Kulpreet, how does this
look from Google’s perspective? Is it similar?

MR. RANA: Yeah. I think we face some of the
same difficulties that Jay was referring to. We receive
letters kind of regularly, increasingly as we have become
more visible. We are a bigger target. I think we are
definitely aligned with the FTC’s proposal in the sense
that if you deliberately copy with knowledge that
something is patented that, you know, it makes sense that
that would give rise to willful infringement. I am a
little more – I would like to think a little bit more
about the Notice Letter provision of the FTC’s
recommendation just because I do kind of wonder what
effect that will have on people’s behavior and whether
that will give rise to - I already get plenty of notice
letters, I do not particularly want to get a ton more
that I am going to have to spend a lot of time to review.
And I think it would be interesting to maybe think about
how that could tie into – for there to be some kind of a
consequence for people who issue notice letters, for example. And maybe that ties into things like post-grant review that we have been discussing earlier, where maybe if you issue a notice letter that creates sufficient reasonable apprehension that the person receiving it could initiate some kind of a review, and maybe the cost associated with that is enough to regulate the conduct of the people who are, you know, sending those out. So I think it is an interesting thought. There are some things to kind of think through a little bit more there.

PROFESSOR SHAPIRO: Do you want to say something, Bart?

MR. EPPENAUER: Oh, sure. As I said before, we strongly support this recommendation. In response to your comment, I think that if you have this burden placed on the letter writing, that will reduce the letter writing because, you know, in our experience when you challenge somebody to send you sort of a soft letter, to prove it up, it takes a long time to get that information from them, and yet you are still in a willfulness situation. So I think it is really going to help. We are strongly in favor of it and we are strongly in favor of removing adverse inference and trying to avoid the whole waiver of attorney-client privilege, which is a real problem in litigation.
MR. MONAHAN: Let me just add that, I mean, right now the letter writers have their cake and eat it too because they can send you a non-notice letter which costs them almost nothing, and then preserve the ability to make an argument later, and I am intrigued by there being a consequence because, if I had a dollar for every letter that either we never heard from again, or never responded when we wrote to them, you know, we would be rich. So I think this is an important area, and I am concerned about inviting more. But I really think if you put a consequence, you can put a standard on these things, that the incentive to write them would be reduced, and the people who wrote the letters would really believe that they have a claim. And that is what we ought to be dealing with.

PROFESSOR SHAPIRO: Oh, and I know you have some strong views on this.

MR. BARR: Nah, I don’t have any strong views. A couple quick things. First of all, when the letter writers go away, that is reward in itself, so I am okay with that one. I support the recommendation strongly and I just don’t think anyone has mentioned the real - what I think is the most important basis for it is that we can again allow engineers to read patents because, at least to me there is enough ambiguity in the case law that I
have to discourage engineers from reading patents and in their prior art searches because that might be enough for willful infringement. But having said that, I will attempt to improve on what Mark said this time because he referred to his article, but he did not - I will improve on what he said, but not on what he wrote, and I strongly recommend that you read the article on willfulness - he can give you the cite or he can e-mail me - because the recommendation there, after he discusses all the problems, he solves the problems by proposing that wilfulness can only - and at risk of mischaracterizing it - but it can only occur at the time you develop the product. If you copy a product or a patent at the time you develop the product, then you could be libel for willful infringement, but just because you are down the road in what Professor Shapiro calls a hold-up situation, where it is very difficult to modify your product, now you get a notice and you get an opinion, but can you back out? That is a tough problem and the triple damages penalty for not getting an opinion or not producing it in court - or for not having one that satisfies the requirements is a little drastic in the hold-up situation. So I would urge everyone to read the article, or at least the last few pages, the Executive Summary.

PROFESSOR SHAPIRO: Okay, well, I want to
close this part on I think that happy consensus that
industry, I think, really wants change here, they feel
this is my sense, and FTC has identified some specific
ways to do that. Of course, there will be some more
discussion about how to implement it. But I hope this
will happen and it seems to me we have taken a step in
that direction. Which means it is time for me to turn it
over to Mr. Action -- Commissioner Thompson, how do we
make this happen? What do we do next?

COMMISSIONER THOMPSON: Well, "Action" is an
interesting word, I mean, for the Professor it - and for
lawyers here, you might be interested to know that - for
students and lawyers who are here, you might be
interested to know that Professor Shapiro sometimes
appears before me, and I do not have a bell, I do not
have a rasp, and I do not even have a clock, but, you
know, Casey, you need to remind me to buy those things,
okay? This is very interesting. I like the technique.
I am also very impressed that we are here at the end of a
Friday afternoon and there are actually more people here
than we started out with this morning. And that is very
impressive because I began this morning by noting that
today’s event had the potential to be a watershed moment
in the future of innovation in the U.S. Now, some might
criticize that statement as a bit of puffery, but based
on the excellent discussion that I have heard today, I am
convinced that is true. So at the outset,

congratulations, give yourselves a hand.

Now comes the hard part. How do we take our
gaggle of bright ideas and keen insights about patent law
and process and turn them into something more meaningful
about innovation in our economy? Or how do we capitalize
on this opportunity to make the Patent System more
accommodating to innovation in the world that we see
today, especially in high technology and biotechnology?

And here I might have a few suggestions. First, I would
encourage the people in this room to create an organized
and continuing voice of technology and academics to take
advantage of the opportunities to support innovation
through improvement of our Patent System. I am always
struck sitting in that strange place called Washington,
D.C., that when you are considering some questions like
these questions I am reminded of the movie Ghostbusters —
"Who you gonna call?" And all of these people have

interesting views, and in looking at our report, it is
important to recognize it took almost two years to locate
all of those resources, and most policy makers are not in
that position. So creating an organized and continuing
voice is very important. Second, I think it is also
helpful to create an ongoing resource for policymakers so
that we can understand how intellectual property is used in Information Technology and Biotech. In the context of doing this report and being here, and listening to the many people, some of which are here today, I thought it was very enlightening to hear not only viewpoints, but positions and practices, anecdotes, and data. Sometimes that information doesn’t filter very well back East. Holding yourself out as a resource is very important. Third, I would implore you to continue the momentum generated here by developing ongoing mechanisms to discuss among yourselves the specific issues raised here today, and identify areas of consensus. Fourth, and maybe this is something that is a bit of a challenge to all of us, is talk to the public about your stake in innovation and in intellectual property, and why it is important to them. And be able to talk about the markets that you deal in and how fast they change. In other words, tell people why this issue is important. Now, I am happy to say that I can make an announcement here, and I don’t want people to say that this is a light announcement because I think it is significant, that a core group of leading technology companies are willing to take the first step today by working together, and it may start by a public announcement, that they agree that there is an opportunity to make the Patent System more
responsive to technology and innovation, and that they agree to meet and have a continuing dialogue among themselves, academics, and policy makers about the proposals discussed here today. Now those companies include CISCO, Intel, eBay, Semantec, Chiron, Microsoft, and Genentech. So with that announcement, I think you are off to a very good start. And I thank you all for getting us to this point.

Now, although I may live to regret it, I look forward to sharing this ongoing relationship with you all as you refine your views and we consider how innovation can thrive in America. So, congratulations, and thank you all for being here.

(Whereupon, the workshop concluded.)
Certificate of Reporter

MATTER Patent Reform Workshop

Date: April 16, 2004

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: April 28, 2004

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ADRIAN T. EDLER

certification of Proofreader

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

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DIANE QUADE