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FEDERAL TRADE COMMISSION

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PATENT REFORM WORKSHOP

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BANCROFT HOTEL, BERKELEY, CALIFORNIA

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## I N D U S T R Y P A N E L

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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.

1                   PROFESSOR SHAPIRO:    So let me explain what we  
2                   are going to do. Commissioner Thompson reserved special  
3                   intervening rights, okay, I think he is going to raise  
4                   his pinky and then everyone has to stop talking -

5                   COMMISSIONER THOMPSON:   That has never worked  
6                   before.

7                   PROFESSOR SHAPIRO:    I am going to be the time-  
8                   keeper. And with a dozen panelists and many topics to go  
9                   through, this is - I tend to take my job seriously, so  
10                  let me demonstrate my tools of the trade. When there are  
11                  time limits, and in addition to the pathetic waving of  
12                  the stop sign, we will have - be quiet now - that means  
13                  now would be a good time to wrap-up. However, I  
14                  understand from law enforcement that sometimes one needs  
15                  a higher threat of action if people don't comply, and as  
16                  many of you patent attorneys understand, that the threat  
17                  of what can come next, you know, can affect things since  
18                  you often negotiate in the shadow of litigation. And I  
19                  want to take - a point of personal - this will take one  
20                  minute to tell a story here - this involves Jose  
21                  Capablanca (phonetic) who was the world chess champion  
22                  during the 1920's and he had a championship match against  
23                  Allakein (phonetic) in 1927, and they were bitter rivals.  
24                  Capablanca was Cuban and he was a big cigar smoker, not  
25                  surprisingly, and of course Allakein negotiated that

1 Capablanca could not smoke his cigar during the chess  
2 games. But there they show up to the first game,  
3 Capablanca is with his cigar. Allakein complains, says,  
4 "We agreed you wouldn't smoke;" Capablanca says, "I'm not  
5 going to smoke, I just like to hold my cigar while I  
6 play." And Allakein thought about it and said, "But I am  
7 very concerned about the threat that you will smoke." So  
8 I have to have a threat. I will demonstrate it once, I  
9 will not light up my cigar. If you go on too long, we  
10 have a noisemaker here that will make the point.  
11 Everybody get it? Okay. Here is what we are going to  
12 do. We have great industry representatives here and we  
13 have representatives of several associations of  
14 attorneys. I think together we can really get a sense of  
15 how some of these FTC proposals are being greeted by  
16 people who live and breath this in their businesses and  
17 through all stages of the patent process, through  
18 attorneys who know these far better than I do. Okay, so  
19 - and I think you hopefully have heard the other panels.  
20 I think the problems are well set up. I am not going to  
21 repeat that. We are going to go right into really how  
22 does this affect companies and where are the Bar  
23 Associations at on some of these proposals. Okay, I  
24 think we have heard a lot about, concern about patent  
25 quality, okay, what does it mean in practice and what do

1 the people who know these things best as practicing  
2 attorneys - what is their reaction to these proposals?  
3 And I think it is very important here to bear in mind  
4 that even companies that have a lot of patents do not  
5 necessarily think, "Oh, stronger patents, more patents is  
6 better." Okay, it is not that simple. In fact, many of  
7 them with many patents are concerned that there are too  
8 many bad patents out there at the same time. In addition  
9 to the industry representatives, and I am not going to go  
10 through and introduce everybody since they will have  
11 their chances to speak, and I do not want to take the  
12 time for that, we have representatives of five important  
13 associations, so let me just mention those associations  
14 and the people can speak more about that, the ABA  
15 Intellectual Property Law Section, the AIPLA, the  
16 Intellectual Property Owners, Bio, and the U.S. Council  
17 for International Business. So a number of the panelists  
18 will be speaking on behalf of those organizations, other  
19 panelists will be speaking on behalf of their companies,  
20 and some clever panelists will wear two hats and will  
21 have to tell us which hat is on when they speak. Okay.  
22 One of the good things here is that a number of these  
23 organizations are in the process of responding to  
24 evaluating the FTC proposals, so we will be able to hear  
25 where they are at, okay? In most cases, they do not have

1 the formal final approvals yet, but we will be able to  
2 get an early read on when they are coming out and I think  
3 that is very very helpful.

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

21 MR. BARR: Okay, thanks Carl. First, since  
22 you are asking us to do this, I want to object to the  
23 dismissal of this kind of evidence as anecdotal. I have  
24 heard it a few times now in reaction to the FTC Report  
25 and it - one person's anecdote is another person's case

1 study is the way I look at it, and I think the FTC did a  
2 great job of synthesizing a lot of anecdotes into a very  
3 coherent report that showed I think what you are about to  
4 hear that some of us in the industry - that more than one  
5 of us in the industry have some issues. That said, I  
6 want to say we are a stakeholder in the Patent System, we  
7 are a major owner of patents and an investor in the  
8 system. We want patent quality. We want patents to be  
9 respected. I do think it is pretty simple. Patents are  
10 like children and yours are good and everybody else's are  
11 bad, so, you know - well, our patents are therefore of  
12 high quality. Secondly, in addition to being a patent  
13 holder, we are what I can only call a potential  
14 defendant, or a deep pockets, or a company with revenue,  
15 whatever you want to call it. So we have an interest in  
16 avoiding infringement. In fact, if I could choose my job  
17 and do it, I would say my job is to avoid infringement  
18 like I do with copyrights and trade secrets and laying  
19 down the law, as it were. But with patents, that is  
20 pretty difficult. We used to call it a minefield out  
21 there. Thanks to Carl, we now call it a thicket, which I  
22 think is a better image because it is not just a bunch of  
23 mines that we have to avoid, it is an overlapping morass  
24 of patents that is virtually impossible to avoid. In  
25 corporate-speak, that is a risk management problem of the

1 highest order. It is virtually impossible to avoid all  
2 those patents because of the sheer number of them, but in  
3 addition to that, the unpublished patents, the published  
4 patents that you do not know what they are going to turn  
5 out to be, the numbers are pretty big, and Intel  
6 representatives have quoted numbers like 80,000 patents  
7 on a microprocessor, it is just a clue to what is going  
8 on.

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

25           PROFESSOR SHAPIRO: Thank you. Next, Bart



1 Eppenauer from Microsoft.

2 MR. EPPENAUER: Thanks. It is a pleasure to  
3 be here today. I will put my comments in the context of  
4 the report itself in terms of the issues that we see.  
5 And first and foremost the issue of the law of willful  
6 infringement, and it is really good to see the report  
7 come down the way it does, and we are hopeful that the  
8 Knorr-Bremsey decision comes out the right way. But,  
9 regardless, we wholeheartedly agree with Judge Whyte that  
10 it is a real pain for companies to deal with willful  
11 infringement allegations. We face it in just about every  
12 case that comes against us, regardless of whether we had  
13 any knowledge of the patent, if the patent was issued the  
14 day and the next day we get sued, well, we will get a  
15 willful infringement allegation based on some press  
16 release, perhaps, that was issued about the filing of the  
17 patent five years previous. I mean, we really have had  
18 to deal with a situation like that, and it is one where  
19 we completely agree that willful infringement ought to be  
20 limited to cases where there is specific written notice  
21 and, going even further, specific identification of  
22 patents and the claims, and how the claims apply to the  
23 products so it is really before that willful infringement  
24 allegation triggers - you have that. Another difficult  
25 or tenuous willful infringement allegation that we faced

1 before is in cases where a company's patent was cited in  
2 one of our own patents - in prosecution, one of many  
3 thousands of patents we have, and it just so happened  
4 that this company's patent was cited, and now we are  
5 fighting a willful infringement allegation because it is  
6 just not clear what kind of knowledge is required, and we  
7 certainly do not think that that kind of thing is at all  
8 sustainable and would put an incredible burden on  
9 companies. So we are really happy to see and we fully  
10 support the willful infringement change in the law. We  
11 hope the Federal Circuit does the right thing and look  
12 forward to that decision, as well as the waiver issue on  
13 attorney-client privilege, that really is a difficult  
14 proposition and we fully support having no adverse  
15 inference established based on whether or not you decide  
16 to disclose your attorney opinion because you just do not  
17 know how far that is going to go with a particular  
18 jurisdiction, if you are going to have to give up all  
19 your trial counsel notes and things, that is a difficult  
20 thing. So I think, first and foremost, that is really an  
21 important point to us.

22 The second point, perhaps, in relation to the  
23 post-grants review proceedings, I think it is pretty  
24 clear that there is a major increase in patent litigation  
25 in the IT industry and certainly Microsoft faces an

1 increasing number of patent lawsuits where we are the  
2 defendant. And on top of that, we have many many more  
3 assertions prior to litigation where we spend a fair bit  
4 of time negotiating and analyzing those assertions. So  
5 in that respect, I do echo some of the comments I heard  
6 earlier today which is, it is not just an issue of what  
7 are the questionable patents, or what are the bad  
8 patents, if you will, but it is really an enforcement  
9 issue. You know, the PTO very well may have granted a  
10 patent that, if you look at the file wrapper and - is  
11 that it - sure thing, good, one more minute before the  
12 big thing comes up. So I think in that context, the  
13 post-grant Opposition would be very helpful to try to  
14 avoid litigation disputes. And one of the things that is  
15 interesting and we would like to see how this plays out  
16 is the time duration. One year from issuance in some  
17 industries might work really well, and in a lot of the  
18 cases that we see come our way, it is many years after  
19 the patent is issued that we just first learn about the  
20 patent that we are sued, and it is not going to be real  
21 helpful to us, the post-grant procedure, if you can do  
22 something, some threat of a lawsuit, or an actual lawsuit  
23 where you can institute this proceeding, and in some  
24 industries like ours where there are so many thousands of  
25 patents out there in the Information Technology space, it

1 is kind of difficult to monitor all of that and to select  
2 the ones that you would want to pursue in an opposition  
3 proceeding. So it is going to be interesting to see  
4 that. That is it for me for now.

5 PROFESSOR SHAPIRO: I do not know if you want  
6 to speak at this point on behalf of 3M, or if you want to  
7 --

8 MR. GRISWOLD: I think I am here on behalf of  
9 the AIPLA, and so I will tie it together with my AIPLA  
10 comments. I can, but they kind of join. You would  
11 expect that they would join at the hip. I will do it  
12 later with the AIPLA.

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

15 Mr. JOHNSTON: Hello. Thanks. I will start  
16 by commenting or making the observation that Jim Pooley's  
17 comment earlier today resonated with me when he said the  
18 so-called sand in the gears are really in the enforcement  
19 system, and that is the area that we have the most  
20 concern with. And, in particular, I will go quickly  
21 through three areas where we think the FTC has made some  
22 good observations. First, is in the need for a new and  
23 improved post-grant review process. This was the topic  
24 of the discussion of the panel this morning, so I won't  
25 belabor the point, but suffice it to say that, like many

1 other businesses, we encounter bad patents and have a  
2 hard time dealing with those. We end up in litigation  
3 too often dealing with bad patents, patents that we  
4 believe are invalid, that eventually are found invalid on  
5 appeal, and it is an extremely costly, time consuming  
6 process not only in costs from the perspective of paying  
7 outside counsel to litigate these matters for perhaps  
8 many years, but also the opportunity costs of taking away  
9 scientists and engineers from work that they would better  
10 be devoting to scientific research, rather than to  
11 depositions and giving expert reports and the like.

12 The second thing is, as a number of people have  
13 commented, reigning in the proliferation of what we  
14 believe are unmeritorious, intrusive, willful  
15 infringement claims that I am afraid too often are  
16 brought just for strategic coercive purposes to try and  
17 exert the maximum amount of pain or potential pain on a  
18 litigant. And I think in this area, in addition to  
19 whatever the Court of Appeals may decide in the Knorr-  
20 Bremsey case, at a minimum, we should codify some  
21 requirement that there be a bifurcation of the  
22 willfulness issue away from infringement and validity  
23 issues, and let the patent owner make out a willfulness  
24 claim, if they can, only after they have established  
25 validity and infringement of their patent claims.

1           Regarding the FTC's comment on the so-called  
2       thicket of patents, I encourage focus on one particular  
3       patch or aspect of that thicket, which I know has been  
4       the subject of discussion by a number of different panels  
5       and groups amongst the - along the time line here, and  
6       that is the patents that are directed primarily to  
7       materials, methods, and machines that are used solely in  
8       research activities. So some people would refer to these  
9       as the so-called research tool patents. The point here  
10      is not to take away or put these patents sort of in a  
11      second class status, but the fact of the matter is these  
12      patents are proliferating in number. Again, I may be  
13      hung up on transaction costs, but dealing with these  
14      sorts of patents on a one-off basis is extremely time-  
15      consuming, there are tremendous transaction costs, and I  
16      think we need to find a better way of dealing with that  
17      and, for example, I think it is worth taking a look at  
18      the scope of the experimental use exemptions, seeing if  
19      there is some possibility of making some changes there,  
20      perhaps finding a market-based, more efficient way to  
21      license these things such as through a clearinghouse akin  
22      to the Music Copyright Clearing Houses, and just overall.

23           Finding a way to deal with these in a more  
24      efficient way. And my last comment, then, will be just a  
25      general observation. I cannot help sitting and hearing

1 the comments this morning, in particular people  
2 commenting - I think someone referred to it as the  
3 "willfulness game," the proliferation of just an  
4 excessive number of inequitable conduct claims, the sort  
5 of cynical use of the Eastern District of Texas for  
6 filing cases. I think you cannot help but hear that and  
7 come to the conclusion as was once said, that we have met  
8 the enemy and he is us. I think it is perhaps ironic if  
9 we take a step back, this same group that is organized  
10 here today, that is complaining about this, that were  
11 often the ones who are going back to our offices, to our  
12 outside counsel, and actually making these sorts of  
13 claims, making these sorts of filings. So at the risk of  
14 sounding like I have been in Berkeley too long - I don't  
15 live in Berkeley - I think we all should take a step back  
16 and perhaps exercise a bit more self-restraint, self-  
17 discipline, and take a more far-sighted perspective on  
18 how we approach these various issues and not rely  
19 exclusively on legislative or regulatory reform.

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

24 MR. JOHNSTON: Thank you.

25 PROFESSOR SHAPIRO: Next, Jay Monahan from

1 eBay.

2 MR. MONAHAN: Thank you. If some of these  
3 problems are the sand in the gears, then eBay is in the  
4 business of building gears. We have built an E-commerce  
5 platform which, as you know, has met with enormous  
6 success. The interesting thing is, almost five years ago  
7 to the day I started at eBay, the only time I ever heard  
8 the word "patent" was if somebody was referring to patent  
9 leather shoes being sold somewhere on the eBay site. And  
10 there was a long period of virtual silence, never got a  
11 letter, never got lawsuits, nobody ever talked about it,  
12 and then over starting probably three and a half years  
13 ago we started to see more letters. And the letters  
14 sometimes were followed by lawsuits. And many of the  
15 letters, in fact, I would hazard to say most of the  
16 letters, when you actually dug into them, you realized  
17 that were either facially ridiculous, or an incredible  
18 stretch of construction, and in my view if you applied a  
19 Rule 11 analysis to it, it never would have exceeded Rule  
20 11. Now, in fact, there was one case where I got a  
21 letter and I said, "You know, you have got to be kidding  
22 me." I cannot tell you how many times I have said that,  
23 but I went to Google to the Google News Groups, which I  
24 pray and thank Google for every day, and in two hours  
25 found dispositive killer prior art. And I said there is



1 something wrong with this picture. It has driven the  
2 cost of my life, of my life as a lawyer at eBay up. I  
3 now spend more of my time on patent issues, both our own  
4 portfolio, as well as defensive issues, than any other  
5 single issue, which was clearly not true a few years ago.  
6 We worry about these letters because of things like the  
7 willfulness standard. It would be great if I could just  
8 say, "This is ridiculous" and throw it in the trash can.  
9 We obviously can't do that. We engaged in a very  
10 reasoned analysis and, in some cases, we get very  
11 expensive opinions of counsel which, in some cases, sit  
12 on the shelf because you never hear again. In fact, most  
13 of the time you never hear again, but that does not mean  
14 it is free to me. We also get a lot of what I call  
15 "squirrely" letters and this is an issue which will have  
16 to be considered when we talk about what a willfulness  
17 standard ought to be because many times the letters do  
18 not say "Dear Jay, Your X product is infringing my  
19 patent," it will say, "We noticed that you recently  
20 announced your such and such feature. We think that you  
21 might be interested or benefitted from taking a license  
22 to our portfolio." So are they accusing me of something?  
23 Well, I do not know the answer to that, but I can  
24 guarantee you if there is litigation, they are going to  
25 say they did, and I am going to be dealing with that

1 issue in litigation. Lawsuits - lawsuits - we are in a  
2 whole new world. The presumption of validity is a  
3 problem. It is something which is trumpeted by  
4 Plaintiffs, it is something which is difficult to get  
5 over. Summary judgment is also difficult to get over.  
6 And I think that there is something that is outside the  
7 scope of this conference, which is what about the role of  
8 the judiciary? Because I think there is a reluctance  
9 among some members of the judiciary to do what I would  
10 say is the right thing, which is to grant summary  
11 judgment, to issue a Markman ruling that construes the  
12 terms and lets the chips fall where they may, and I do  
13 not think that happens as much as it ought to. And,  
14 finally, big verdicts and big settlements - verdicts  
15 happen and, by the way, I am litigating in Marshall,  
16 Texas and in Delaware as we sit here today, and I have to  
17 balance as an eBay lawyer the need to fight these cases  
18 to demonstrate our resolve against these ill-conceived  
19 patents, but at the same time do what is right for the  
20 company when it comes to balancing risks. And,  
21 unfortunately, as the FTC report points out, the balance  
22 has been disrupted. If there was a balance, there no  
23 longer is a balance. And we are here pleased to be a  
24 part of this conference, we have some thoughts on some of  
25 the reforms that make the most sense which we are going

1 to talk about in a minute, there are others which we have  
2 not yet formed full opinion on, but really welcome the  
3 opportunity to finally try to do something about this  
4 important area.

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

7 MR. RANA: Thanks. So my perspective on this  
8 issue has really changed over time. I was thinking about  
9 it earlier and I remember when I was in law school  
10 thinking about the Patent System from a very theoretical  
11 viewpoint and, oh, there are these interesting issues and  
12 tensions, and then I had the good fortune of clerking at  
13 the Federal Circuit, please do not stone me for that, and  
14 that was also like a fairly academic perspective, though,  
15 thinking about some of these patent issues. You are  
16 still in a bit of an ivory tower as an Appellate Court.  
17 Next up was law firm practice and, you know, that was a  
18 bit of a transition period, but it was not until I  
19 actually entered industry at Google that it became very  
20 evident to me what the real world impact is of the Patent  
21 System. In short, I think it is really just a mess from  
22 the perspective of trying to deal with the issues that  
23 you face when you are in-house. As with other people on  
24 this panel, Google approaches this issue from the  
25 perspective of a company that obtains patents and also

1       has patents asserted against it. And, you know, I think  
2       it is hard to make some of these - to think about some of  
3       these things, generally, because there are places where  
4       the Patent System is probably working fine.

5               And, so, making generalizations tends to raise  
6       kind of concerns on other sides. But there are also  
7       places where it makes it difficult as a business person  
8       to provide the kind of advice that you need to, and one  
9       of the main high level areas of that is just in terms of  
10      the - and a few people have mentioned this before - the  
11      lack of certainty or predictability that is engendered,  
12      and this ties into the examination process, and if you  
13      don't have a clear sense of what the quality is of  
14      patents that issue or what their value is, it becomes  
15      hard to make business decisions about that. There are  
16      those who would take advantage of that ambiguity by, you  
17      know, in conjunction with the presumption of validity, to  
18      try to extract value. And certainly the fact that  
19      litigation is one of the main ways of resolving that  
20      right now does not help because it is a high cost  
21      alternative, and so that encourages settlement even where  
22      it may not make sense. But that is just one context.  
23      That same ambiguity and uncertainty comes into play in  
24      other areas, as well. If we are trying to assess the  
25      value of patents that we have ourselves for purposes of

1       licensing, it is difficult to do because of the  
2       uncertainty. If we are interested in acquiring another  
3       company or a portfolio, it becomes hard to evaluate that  
4       because of the uncertainty.

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

12  
13              MR. SCHALLOP. I wanted to just set the  
14      background for a couple of scenarios that are practical  
15      scenarios that I think similarly situated companies,  
16      software companies, of about Semantec's size will run  
17      into from an inside counsel perspective. So Semantecs is  
18      primarily a software company, which means that we develop  
19      products and release those products in generally a six to  
20      nine month time frame. So you are talking about a pretty  
21      rapid development cycle in a product life cycle that in a  
22      software product space, you know, may not exceed three,  
23      four or five years. It is characterized, I think,  
24      accurately in the FTC report as an area where there is  
25      incremental innovation. We come out with a new product

1 feature and, very shortly after, competitors, once they  
2 see that feature, if they had not already been developing  
3 it for their product, will soon enough develop that  
4 similar or maybe an improved feature along the same lines  
5 in their product. It is very front-loaded, kind of like  
6 law school, all the work and rewards are generated by the  
7 initial product development. The industry, because it is  
8 incremental innovation is, you know, correctly  
9 characterized, I think, in the report also as a defensive  
10 patenting area, which means that it is a numbers game.  
11 You have an incentive to try to patent as much of your  
12 distinguishable product features that you can get through  
13 the Patent Office, which from hearing from the staff,  
14 that is probably one area where we have certainty. You  
15 have a pretty good chance of getting a patent through,  
16 depending on claim scope.

17 So, as a practical matter, that means that we  
18 need to file patents on those distinguishing features, on  
19 key product features, and do these reviews for products,  
20 you know, fairly often. At the same time, you have  
21 engineers and developers who are under a lot of pressure  
22 to get new products and new features out. With that in  
23 mind, I think that the focus in some of the  
24 recommendations on patent quality may be the best way to  
25 start to make sure that we can address what is really -

1       and I think Bob would address it as the MAD game. And it  
2       is always going to be a numbers game, even if we try to  
3       address some of the enforcement issues, whether it is  
4       standards of proof and presumptions with obviousness,  
5       because in a numbers game, just having patents issued,  
6       whether or not they are ever going to stand up in court,  
7       serves their purpose, depending on the different contexts  
8       with certain competitors. So I do think that addressing  
9       the patent quality up front makes a lot of sense and has  
10      the advantage of putting more of the burden on the  
11      patentee to prove the patent is entitled to get through  
12      the Patent Office, rather than post-grant procedures  
13      which, again, the transactional costs are going to be  
14      born by the potential defendant or targets.

15               The second scenario that we often face is, if  
16      you are a company that has a revenue stream, you are  
17      inevitably going to be a target by either your  
18      competitors and/or what the report refers to as "hold-  
19      ups," "patent hold-ups," or referred to earlier today as  
20      "trolls." Addressing the patent thicket issue, I think,  
21      requires you to have really good information as to what  
22      patents are out there and the Patent System today is  
23      designed to disincent you from actually studying your  
24      competitors or other third party patents out there, which  
25      I think really disrupts the balance of the Patent System,

1       which is, you know, the disclosure is the exchange to  
2       encourage innovation and is the basis for the Patent  
3       System's goal of evolving technology.

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

7               MR. SIMON:   I thought the best way is - for  
8       those of us who are up on the panel in the industry have  
9       faced these problems all the time, but to try to make it  
10      a little bit more clear as to how the uncertainty is a  
11      problem, use something that Professor Shapiro may be  
12      aware of in terms of LBJ's One-Handed Economist, which  
13      is, early on in my career at Intel, I got called in to  
14      handle a problem.   It was a problem with nine zeros after  
15      it, and I, just having been outside counsel for my entire  
16      career, started with, "Well, on the one hand," whereupon  
17      the Senior V.P. who I was talking to's hand came down on  
18      top of mine and said, "David, if another hand hits the  
19      table, I cut it off.   What do I do?"   This guy was a  
20      little scary, by the way, so that was particularly  
21      unnerving.   But, be that as it may, the problem that we  
22      all - those of us who are in-house, all face, is we have  
23      to give advice on what are we going to do, and we are  
24      facing a huge amount of uncertainty.   You know, and if  
25      you just think about some of the FTC issues such as the



1 willful infringement issue, you know, in response - and I  
2 am the guy they turn to, saying, "What do we do?"  
3 whenever somebody sues us. I have to say what we are  
4 going to do. Well, that is an opinion. Immediately I  
5 say what we are going to do, now is that going to be open  
6 for discovery? It raises a whole host of issues that  
7 just completely raise too many uncertainties. Similarly,  
8 we get these patents in which, you know, I mean, there  
9 are some really good patents, we have got some really  
10 good patents - and by the way, our success rate on  
11 getting patents is over 100 percent - so - well over, by  
12 the way - but the point being, you know, you get these  
13 patents and you take one look at them and you say, "You  
14 know what we ought to do with this patent," but, you  
15 know, you have to go through all that analysis, you have  
16 to go talk to your engineers, and it is very distracting  
17 and it is very taxing. And, in fact, it also causes us  
18 to, of course, both for prior art purposes and to make  
19 sure that we have lots of stuff out there of our own, it  
20 causes us to file what I personally think is an  
21 inordinate number of patents, and every year my CEO says,  
22 "Go get more," to the point where my patent filing budget  
23 and prosecution budget is now more than half the size of  
24 our Corporate Research Lab's budget. That, to me, seems  
25 to be out of kilter. And, you know, obviously - and by

1 the way, that does not include litigation, that is a  
2 separate budget which is also roughly the same.

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

17 PROFESSOR SHAPIRO: You do.

18 MR. SIMON: Okay, just got it in there. We  
19 got sued several years ago on a patent where we felt we  
20 could get the license for \$2 million. I have had a  
21 number of people come up to me afterwards and say - and,  
22 by the way, this is the case that we used the term  
23 "patent terrorist" which got us sued for libel, which  
24 had, by the way, very interesting issues in collateral  
25 litigation - but because truth is a defense, right? But

1 the point being that when you - it cost us \$3 million of  
2 outside counsel fees to win on summary judgment and get  
3 it affirmed on appeal. We probably could have gotten the  
4 license for \$2 million, and I am not throwing into that  
5 literally hundreds if not thousands of hours of various  
6 engineers' time on helping us on this case plus in-house  
7 counsel work on this case, as I think my time has some  
8 value, at least. And when you looked at that and said  
9 what was the right thing? Should we have paid? Should  
10 we not have paid? You know, I asked my CFO that and he  
11 said we did the right thing because it only cost \$3. I  
12 said what if it was \$10? And he said, "I am not going to  
13 give you that answer today. Thank you.

14 PROFESSOR SHAPIRO: Thank you. Thank you,  
15 all. So next I want to walk through - we are going to  
16 walk through each of the FTC's proposals in order - why  
17 not? And I am going to frame it up and then turn to  
18 certain of the panelists to give reactions, where they  
19 are at on that proposal, pluses and minuses. The goal  
20 here is so we can really hear - try to learn where there  
21 is consensus, where there is not, and get a sense of  
22 where this process could go - again, from people who  
23 really live and breath this stuff. So let me start - I  
24 will read each of these briefly just to make sure we are  
25 all on the same page since you may not have your handy

1 dandy copy in front of you, right - 1) FTC Proposal 1,  
2 this is the post-grant review: "As the PTO recommends,  
3 enact legislation to create a new administrative  
4 procedure to allow post-grant review of and opposition to  
5 patents." Okay, and of course there was a whole panel on  
6 this, this morning. And yesterday Rob Merges, I think,  
7 laid out some of the basic facts - 180,000 patents a year  
8 are issued - what was it? 17 hours per patent on average  
9 by the examiner, it takes over two to three years. I  
10 think he gave a number of \$3,000 dollars spent for a  
11 patent. I think Mark Lemley gave an impassioned piece  
12 this morning on why the PTO's structure is not set up  
13 really to - it is a quick look, okay? It is a quick  
14 look. And I think maybe Joe Farrell described it as  
15 "error prone," but of course there would be those that  
16 would dispute that.

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

23 So, I will add that the National Academy of  
24 Science's Report calls for an Open Review Procedure,  
25 basically of third party challenges before Administrative

1 Patent Judges at the PTO, so they are on the same page  
2 here, or close to it. Okay. So where are folks at on  
3 this? Is this something that everybody wants and can go  
4 forward? And, if so, how would it be designed? Because,  
5 as a number of people have said, even if you want this,  
6 how are you going to structure it? The devil may be in  
7 the details. Okay? I would like to turn first to Robert  
8 Sacoff.

9 MR. SACOFF: Thank you very much. I am the  
10 Chair of the ABA IP Section, and we are one of the  
11 organizations that Professor Shapiro was referring to  
12 when he talked about some of the organizations being mid-  
13 stream in their policy formulation, so I have to state  
14 the disclaimer that my views as I state them are not  
15 really capable of being attributed to the ABA, which  
16 really requires a lot of procedures to go through, or the  
17 ABA IPL Section. We have had a task force which I  
18 appointed upon turning to the FTC report that coordinated  
19 a lot of different committees, and we have had a lot of  
20 really good and hard work done at the committee level,  
21 resulting in resolutions in some cases in the various  
22 recommendations, and some other cases - not resolutions,  
23 but reports. The post-grant opposition procedure is one  
24 that the developing view, as I will call it, is to  
25 support. We have a resolution that will be adopted,

1 finally, or voted down, and that is always possible, at  
2 our June summer conference in Toronto, favoring in  
3 principle legislation creating a post-grant Opposition  
4 Review procedure in which the patentability of issued  
5 claims without any limitation on issues subject to the  
6 procedure, can be reviewed by Administrative Patent  
7 Judges, the Board of Patent Appeals and Interferences.  
8 And some of the details, obviously, are yet to be  
9 determined. This is a fairly - it is always a major step  
10 when you create a new procedure, and I do not think we  
11 know exactly what it is going to look like yet, or what  
12 we would like it to look like yet, but the suggestions in  
13 the deliberations and the developing views include filing  
14 an opposition within nine months of the date of the  
15 patent grant, allowing all patentability issues to be  
16 challenged, not just obviousness, or non-obviousness and  
17 novelty, to provide complete inter-partes proceedings,  
18 some discovery - we do not quite know how much discovery  
19 because that affects a great deal the cost and the length  
20 of time that it is going to take. The view is that we  
21 would like to see such a challenge conclude within a year  
22 and to have appeal ability by any of the parties to the  
23 Court of Appeals for the Federal Circuit. So that is  
24 what I will say about that.

25 PROFESSOR SHAPIRO: Would you say it is the

1 position - the tentative position, that will go without  
2 saying - that a cost-effective post-grant review  
3 procedure is really crucial to having the Patent System  
4 work properly, and we do not have that now?

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

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

15 MR. GRISWOLD: Gary Griswold, I am  
16 representing the AIPLA. I am past President of AIPLA,  
17 but in this particular circumstance, I was Chair of the  
18 committee that put together the report that responds to  
19 all of the recommendations of the FTC Report. We are  
20 further along than ABA, apparently. We have the report  
21 in its basically final form, closely ready to go. I  
22 mean, we are about ready to push the button. We have - I  
23 can tell you, and I won't give you any of the details,  
24 whatever you want, we support basically six and a half of  
25 these guys and we don't support three and a half. So I

1 can tell you which ones those are if you want me to  
2 later.

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

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

8 PROFESSOR SHAPIRO: Good.

9 MR. GRISWOLD: Thank you. And what I will say  
10 on that is that we do support oppositions. We have  
11 developed the details of a proposal relative to how  
12 opposition should be handled, and that was approved by  
13 the Board this week. It does involve a nine month period  
14 for bringing the opposition. We do not believe that this  
15 process should be available, except on agreement of the  
16 parties throughout the life of the patent. In other  
17 words, we want to walk before we run. Maybe, Bob, you  
18 have approval now and you can give us the full scoop --  
19 it may be the Chair of the ABA calling you, okay! But  
20 anyway, let me go on. Our deal is that we would not  
21 include all issues of patentability, only those issues  
22 that can reasonably be tried without significant  
23 discovery, and those are 102, 103 based on patents and  
24 publications, 112, first and second paragraph, no best  
25 mode, non-statutory double patenting, it would be based



1 on the written record. There would be cross examination  
2 of the affiants put in the evidence. There would be a  
3 hearing before the Administrative Judge. There would be  
4 a limited estoppel. I will not get into every detail  
5 because I am sure you do not want to hear that, but it  
6 will be coming out shortly and we do have a well-  
7 developed, well-vetted proposal that we think is ready  
8 for prime time very soon.

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

11 MR. WAMSLEY: Thank you, Carl. I should say  
12 who Intellectual Property Owners Association is,  
13 particularly since three members of the Board of  
14 Directors are on this panel, which causes me to state  
15 things carefully. As we go through these resolutions, I  
16 will be giving our tentative view, which has passed the  
17 first review by the Board, which will be reviewed again  
18 by the Board next week. IPO's members, which really  
19 overlap as a practical matter a lot with the ABA and the  
20 AIPLA, but the members of the Board are Chief Patent  
21 Counsel of larger companies primarily, including  
22 Microsoft and 3M and Intel. We think we are in favor of  
23 post-grant Opposition. We are still trying to sort out  
24 the details, not quite as far along as AIPLA, but we are  
25 definitely in favor of it. We are looking at two models,

1 I guess, mainly, which are similar, the FTC report and  
2 the Patent and Trademark Offices 21<sup>st</sup> Century Strategic  
3 Plan, it was called. It was issued in 2002, which has a  
4 very detailed proposal. I think there is not complete  
5 consensus yet on whether the time period for opposing a  
6 patent post-grant should be a limited period such as nine  
7 months or a year, or whether it should be a longer  
8 period. And there is a lot of variations on that. As  
9 you may have heard earlier in the program, I was not here  
10 this morning, but the PTO, for example, proposed a period  
11 for opposing for several months post-grant plus the  
12 opportunity to propose any time during the life of the  
13 patent, and I believe within a four-month period after  
14 you are subjected to a reasonable apprehension of suit.  
15 So that is one area. I think another area we are still  
16 trying to sort out is just how broad these proceedings  
17 should be, how many issues you should be able to raise,  
18 and what the costs should be. But I think IPO members -  
19 and my feeling would be large U.S. patent holders, in  
20 general, seem to have a pretty broad consensus on needing  
21 a procedure post-grant that is substantially more  
22 expansive than the inter-partes re-examination proceeding  
23 that was enacted in the American Inventors Protection Act  
24 in 1999. And on where we are at, I would say that IPO -  
25 at least ten recommendations, the post-grant Opposition

1 is one of our big three, at least, if not the biggest  
2 one. And I believe I have finished within my time.

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

5 MR. KUSHAN: Thank you. BIO is a trade  
6 association that represents the biotechnology industry,  
7 has a membership of about a thousand companies, and the  
8 only common trait about those companies, really 85  
9 percent of them, is that they do nothing but lose money.  
10 And the only asset that they have is either a patent  
11 application or a patent, and so they are a bit sensitive  
12 about patent issues, probably more sensitive than any  
13 other industry. On the issue of post-grant Opposition,  
14 most of the members of BIO strongly support a rigorous  
15 post-grant Opposition procedure. That view is not  
16 uniform and, in large part, that non-uniformity is  
17 because the critical issue is what are the attributes of  
18 the system that have to be there and have to be  
19 identified before we can actually have a consensus view?  
20 And, in fact, most of the discussion within BIO so far  
21 has been to start to focus in on those attributes of the  
22 system. Many of the things you heard earlier today and  
23 that have been repeated are the variables that are in  
24 discussion now. I think one - I can touch on a few  
25 things which - and give you some insight into the

1       deliberative process that is going on now. One issue is  
2       - and it was foreshadowed in the comments from Eli Lilly  
3       this morning - is that, unlike most industries, there is  
4       a special need for certainty in the area of  
5       pharmaceuticals and biotech inventions, and that is, when  
6       you are about to launch a product, or when you are about  
7       to build a plant, or when you are at that really critical  
8       part of development down the path, you do not want to  
9       have the patent thrown back to the Patent Office in a  
10      proceeding that could end up putting a large cloud over  
11      that investment. And so one variable seems to be the  
12      period of time during which one can raise issues, and I  
13      would say, at least with regard to the non-prior art  
14      based issues, there seems to be a view that about a year  
15      or a little bit longer than that might be the window that  
16      should be appropriate. It is important in this process  
17      to appreciate that, you know, you are going to have a  
18      trade-off in that time limit because most biotech  
19      inventions are not going to have a known commercial value  
20      in a year, but there is still enough monitoring activity  
21      that you can engage in to make a step in. A second issue  
22      that seems to be supported is to actually extend the  
23      issues to 112 grounds. That topic, in particular, is a  
24      dominant topic for many patent applications in the  
25      biotech sector where there is not a lot of prior art -

1 well, there is a fair amount of prior art, but the main  
2 issue in a lot of cases is 112. The third variable that  
3 seems to be supported is the need to have better  
4 management of the proceeding, and here it is kind of a  
5 trade-off right now because many of our members want to  
6 have a simplified procedure for simple issues that does  
7 not make it a really expensive proceeding like  
8 litigation, yet on - you also want enough adult  
9 supervision in the proceeding so that you know you are  
10 not just going to get a re-hash of the original  
11 examination. And then the last issue that we are  
12 struggling with is, there has been some debate about, you  
13 know, how to make the proceeding more rigorous, and that  
14 goes into the area of discovery-like activity in a  
15 proceeding. And many of our members, a small minority in  
16 total, but many of our members have lived through enough  
17 litigation now that they don't want to see the torture of  
18 litigation imported into a Patent Office environment.

19 And so, while there is a legitimate need to  
20 have experts and deposition of experts, there is a great  
21 reticence about turning it into a proceeding that, you  
22 know, you are going to have essentially replicated the  
23 cost of litigation for no benefit in the Patent and  
24 Trademark Office. I am going to stop at that point  
25 because we are still struggling with a lot of other

1 parameters that have not been talked about in the  
2 discussions so far, and we do not really have uniform  
3 views.

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

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

10 MR. MYRICK: Thank you very much. First, I  
11 would like to make a little disclaimer and my views here  
12 are being expressed as my own - except where I  
13 specifically attribute them to the USCIB, they are not  
14 the views of my firm or any client. I am delighted to  
15 talk about this issue. I think it is an easy issue in  
16 one sense to support. It is hard as the dickens to make  
17 happen. When I got started in this profession a rather  
18 long time ago, we were privileged to be provided  
19 something called reconsideration at that time, a very  
20 long time ago, some of you will remember it. It was a  
21 pilot program. It was the forerunner to re-examination.  
22 So we have been working on making this kind of post-grant  
23 review work for a very long time. Have we succeeded? I  
24 do not think so. And I think the devil is in the  
25 details, absolutely. The comments that Jeff just made

1 about cost are going to be determinative. The real  
2 success of any post-grant procedure is going to be  
3 determined by whether or not it is used. And Mr. or Dr.  
4 Harhoff's comments this morning were very worthwhile in  
5 regard to the success in Europe, however, he also made a  
6 passing comment, which I think - I hope I quote correctly  
7 - in that the numbers or percentages have been going down  
8 in Europe. Is that correct? Yes. And it is an  
9 important note because, frankly, I know some senior IP  
10 counsel of some major companies in Europe, and they have  
11 abandoned the Opposition System in Europe. And why?  
12 Because they paint a target on themselves. So I think  
13 one of the issues, and it has not even been addressed in  
14 the panels this morning, or thus far, is how do you  
15 handle the fact that having raised your hand to be an  
16 opposer, you have told the other side how interested you  
17 are in their patent, and you may not win that opposition.  
18 So it is a very important issue. I think the other issue  
19 that is determining whether or not this will be a  
20 successful system that we propose will be substantially  
21 the issue of estoppel, whether or not you are going to be  
22 bound by what comes of this result and permanently bound,  
23 perhaps. Somebody mentioned res judicata. I do not  
24 think that res judicata is going to get very far if you  
25 want to be able to use this system and make it a success.

1       So I think there are lots of devilish details to be  
2       decided in connection with opposition that will determine  
3       entirely whether it is a success. And, remember, it is  
4       only a success if people really use it, and we have been  
5       trying for nearly 30 years to make reconsideration, then  
6       re-examination work, and, still, nobody uses it.

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

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

23             PROFESSOR SHAPIRO:    Okay, Sean?

24             MR. JOHNSTON:    Yeah, very briefly because I  
25      commented before, we are supportive of this. I agree



1 with Ron, it has got to be a system that is economical,  
2 it has also got to be fast and efficient or, you know, we  
3 will just be repeating the litigation process all over  
4 again.

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

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

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

13 MR. SIMON: Sure. I think what you have is a  
14 real dichotomy between the Bio and Pharma and the  
15 Electronics, Software and probably much other, is  
16 generally no reason for me to challenge a patent unless  
17 it becomes a problem for me, and because otherwise I  
18 would be challenging lots of patents that I have no  
19 incentive to challenge in the ordinary course, other than  
20 to paint that big target, as Ron said. So if, in the  
21 general case, if it has got a time limit, I won't use it  
22 much unless there is somebody I know who is going to be a  
23 problem for me out of the chute, and this is my best shot  
24 at them. If there is no time limit, I will use it a lot,  
25 and I think that is the real consideration. And I

1 understand that the incentives in Bio and Pharma are very  
2 different, and it may even be that what we need is a two-  
3 industry approach, or multi-industry approach.

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

8 MR. KUSHAN: Well, I mean, this is a good  
9 topic to engage on because I think it is something we  
10 have to start out. I think the 112 issues may be more  
11 time relevant, so even if we looked back five years, a  
12 written description as we have seen and applied five  
13 years ago compared to what it is today is very different  
14 as a legal principal, and also evidence in that area may  
15 change over time. I think one question is, you know,  
16 what we do not want in the pharma bio industry is to have  
17 a crippled system to fight about our patents, take over  
18 the patent, and dispose of it in the PTO. And so maybe  
19 the question is, if you allow challenges after some  
20 window that we know we can take it back to a District  
21 Court and fight there because it is too commercially  
22 important to us to leave it in the hands of the PTO with  
23 the limited discovery or limited proceedings around it.  
24 And I do not know if that is something which is going to  
25 be digestible to the software and non-biotech sector, but

1 I think the critical factor is, you know, you just do not  
2 want to have your patent in the Patent Office when you  
3 have spent \$800 million getting a drug and you are about  
4 to launch. It is just a very uncomfortable discussion to  
5 have with your CEO. So it may be not the best fear, but  
6 it is a legitimate fear of these companies, and we have  
7 to find some kind of reality in limiting the access.

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

16 MR. GRISWOLD: If I could just make one  
17 comment. The reality of all this when we debated this  
18 for AIPLA was can we put together a proposal that  
19 actually has legs and can get through Congress, because  
20 we have been involved heavily in the legislative front  
21 for a long time and the AIPA was a big event. I do not  
22 think we have anybody here that is an independent  
23 inventor. I can tell you that there are issues here that  
24 are compromised based on what we think would be  
25 acceptable in the independent inventing community. For

1       example, a limited estoppel. And also the idea of when  
2       you can bring these activities. So you have to keep in  
3       mind what is passable and what you can get started with,  
4       and the other piece is I still believe it is important  
5       that we walk before we run. We heard a lot about how the  
6       PTO operates over the last - at least this morning, and I  
7       think we better be careful that we have a process in  
8       place in a nine-month period that works, and then maybe  
9       we can take it on until later on in the patent's life.  
10      That is our view.

11               PROFESSOR SHAPIRO:    Last comment?

12               MR. MONAHAN:    Just a very quick comment. The  
13      other issue that I think is important, at least from our  
14      perspective, is retroactivity, assuming you can do that,  
15      because if I cannot deal with patents that have been  
16      applied for or issued, say, since '95 or '92 or '93, then  
17      before there was a second-look policy, a lot of my  
18      problems are coming from a particular time frame, so I  
19      think I need to be able to apply this, whatever these  
20      procedures are, to those. And then, going forward,  
21      perhaps there would be a time limit. I actually like the  
22      idea of a time limit of some sort, but having basically  
23      "all bets are off" once somebody threatens me, and then,  
24      what was the reasonable apprehension of litigation, I  
25      would have some rights triggered at that point.

1                   PROFESSOR SHAPIRO:    Okay.  We have got nine  
2   more of these, although we are not going to do every  
3   single one.  So let's move on to the second FTC proposal  
4   - well, let's summarize.  My sense, just to try to wrap  
5   that up, there is a lot of incentive to do something,  
6   there is probably areas where people can come together,  
7   but work needs to be done to get that drafted, something  
8   that is going to work politically, and we will be talking  
9   at the end how to make things happen.  Okay?  So on to 2.  
10   The second proposal is:  "To enact legislation to  
11   specify that challenges to the validity of a patent are  
12   to be determined based on a preponderance of the  
13   evidence."  Of course, rather than the current clear and  
14   convincing evidence.  Well, again, we have heard about  
15   that earlier today.  I think many people would think -  
16   most people think this is a very big deal.  There are few  
17   people that think it would not matter, but I think most  
18   people think it would be a very big deal.  I think part  
19   of his impassioned plea this morning, Professor Lemley I  
20   think presented very nicely the argument in favor of  
21   this, which I would summarize as saying, "Why should  
22   patents get that big presumption if it is such a quick  
23   look going on now?"  Okay?  Now, that raises the issue of  
24   how this proposal interacts with other proposals.  Okay?  
25   I think one could take the reasonable view, if you fix a

1 lot of the other problems so the patent quality goes up,  
2 then the patents would - then there would be a stronger  
3 presumption - maybe clear and convincing - would be  
4 warranted, but it is not warranted now. So we get into  
5 interactions. I think people would say strong medicine  
6 and the question is, you know, is it really - do we need  
7 to do that, or maybe we should work on other pieces  
8 first? Okay. I want to be very quick -

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

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

25 MR. GRISWOLD: I can sum -

1                   PROFESSOR SHAPIRO:    Go for it.

2                   MR. GRISWOLD:     I will sum it up quickly.

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

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

25                  PROFESSOR SHAPIRO:    Okay, that is fine.  It

1       was helpful, I agree with you. Bob, maybe you can talk  
2       about what the ABA - well, there are probably sections  
3       out on this --

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

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

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

21              PROFESSOR SHAPIRO:   Okay. And my sense,  
22      talking with other people, is that other organizations  
23      that are similarly placed - I think, isn't that right,  
24      Herb, for IPO?

25              MR. WAMSLEY:   That is right, Carl. We are



1       against it, too. You know, basically we are into fixing  
2       other things in the system and trying to fix them fast,  
3       and we are into fixing the Patent and Trademark Office,  
4       Willfulness, post-grant. And those are things that can  
5       be done, but this one we are against.

6               PROFESSOR SHAPIRO:     Jeff, very quickly - from  
7       BIO.

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

23              PROFESSOR SHAPIRO:     I could see why the patent  
24      holder is in a stronger position because of the  
25      presumption, but what do you mean "predicated on?"

1                   MR. KUSHAN:   Well, it is predicated on - well,  
2                   in our sector, quality is not a big problem in th sense  
3                   that if you have - we certainly have issues of validity  
4                   of patents, but it is not perceived to be as bad as other  
5                   sectors. And I will say this because we have a better  
6                   prior art foundation, all of our art is in the  
7                   literature, our issues are fairly mature, and, again, the  
8                   Patent Office is chopping up our patent applications into  
9                   microscopic pieces, and so a patent examiner gets 25  
10                  hours to take a little tiny piece in our world, he is  
11                  going to get a pretty good answer. And in that setting  
12                  we feel generally comfortable that many of the patents  
13                  that get out are going to be valid, and I think that  
14                  concerns that other sectors have may not be as pervasive  
15                  as they are on the biotech sector.

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

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

25                 MR. MYRICK:   This is one position that USCIB

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

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

17 MR. BARR: I do not think that not a  
18 presumption of validity. I just want to say on that,  
19 going back on that and just say, a) that is a, you know,  
20 be reminded that is not in the statute - I mean, excuse  
21 me, the presumption of validity is in the statute, a  
22 burden of proof is not, so a judicial creation that I do  
23 think is unjustified. The reason I went back to that is  
24 because people have said, "Well, let's fix the other  
25 stuff first." This is pretty easy to fix, the burden of

1 proof, if we decide to fix it. The issues around  
2 obviousness are much harder to fix, I think. It is  
3 harder, and we had a really good panel this morning on  
4 it. I learned some things and some new ideas, but I do  
5 think the standard itself as written is correct. I think  
6 as applied by the Court and the Patent Office as told to  
7 apply it by the Courts, because I do not blame the Patent  
8 Office, I know they try to reject some things that they  
9 think are obvious, and then the court reverses them, so I  
10 will try to only make one enemy with these comments - one  
11 institutional enemy. But I think it is - in my mind,  
12 when you read it, it is a subjective standard, and the  
13 attempt to apply objective tests to it have led to a  
14 lowering of the standard that has caused - it is The  
15 basic cause of the problem that we face of people of  
16 ordinary skill in the art - don't let my engineers know I  
17 called them that, by people in the art sort of stumbling  
18 into potential infringements of patents that should not  
19 have issued, because it should not have worked that way.

20 PROFESSOR SHAPIRO: Let's again hear from the  
21 association representatives about this obviousness  
22 proposal, maybe Gary, want to do this again? Pretty  
23 briefly, but -

24 MR. GRISWOLD: I will do it briefly. Our view  
25 on that one was that we put this in a support category

1       because, and the way we looked at it, it really was not  
2       advocating a change in existing law, and if is not to  
3       change existing law, then we are okay with it. But if it  
4       is a change in existing law, put it in the case law  
5       because there are some things you get off the  
6       reservation, but if you are going to get what the basic  
7       law is on this, the case law –

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

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

16             PROFESSOR SHAPIRO:    Okay, Bob?

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

19             PROFESSOR SHAPIRO:    Or tightening standards?

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

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

25             MR. WAMSLEY:    We do not favor changing what we

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

18 PROFESSOR SHAPIRO: Okay, I think we will  
19 leave that wonderful clarity on that question and move on  
20 to - I want to kind of lump together to some degree the  
21 fourth and fifth proposals. The fourth one says "provide  
22 adequate funding for the PTO." Now I found very few  
23 people who favor inadequate funding for the PTO, and the  
24 National Academy of Science certainly is on board here,  
25 too, with supporting. So the question, I think it really

1 is how much money? What does adequate mean? Should we  
2 think of that in terms of fee diversion, or what? But I  
3 think the bigger set of issues are, are we going to link  
4 resources to performance, or some sort of reform, or  
5 pressure? Is there a quid pro quo? Because people won't  
6 say, well, it is fine to give them more money because  
7 they are overworked and these workload statistics are  
8 pretty clear, but if they are just going to issue you  
9 more questionable patents, I do not want to give them  
10 more money. So I just want to wrap the funding issue  
11 together with Proposal 5 talks about modifying certain  
12 PTO rules and implementing positions of the PTO's 21<sup>st</sup>  
13 Century Strategic Plan. So I want to kind of frame that  
14 together. Just a quote from the 21<sup>st</sup> Century Strategic  
15 Plan, it says, "Today the USPTO is under siege. Patent  
16 application filings have increased dramatically  
17 throughout the world. There are an estimated 7 million  
18 pending applications in the world's examination pipeline,  
19 and the annual workload growth in the previous decade was  
20 in the range of 20-30 percent. Technology is becoming  
21 increasingly complex, and demands from customers - I  
22 think that is patent applicants, by the way, for higher  
23 quality products and services have escalated." And they  
24 talk about this plan will make them agile and productive.  
25 I fear that productive might mean more patents, but I am

1 not sure about that. Okay. And they do say that the  
2 U.S. industry and the public will benefit from stronger,  
3 more enforceable intellectual property rights. So there  
4 is a little bit of flavor. And there is a whole set of  
5 proposal questions. Many people here know better than I  
6 do what they propose to do and would like to do with more  
7 resources. And I think you have heard about this notion  
8 that there is a culture maybe that they are trying to  
9 issue patents, the incentive structure there. So I guess  
10 I want to push everybody a little bit into not just the  
11 money, but whether, in addition to implementing their  
12 plans, kind of how we can really ensure in that process  
13 that patent quality goes up. Okay, ultimately we are  
14 here talking largely at this stage is patent quality.  
15 Okay, and there are a series of sub-proposals here, I  
16 won't read them, okay? But I will let people speak to  
17 them as they will. I would like to start with Herb. I  
18 know you have been close to this process, certainly the  
19 funding side of it. We are moving along in time, so I am  
20 going to ask everybody to be really crisp here, and I  
21 will start using the bell more, and it is not personal,  
22 but it's just I've got to keep us moving.

23 MR. WAMSLEY: Well, this is one of our  
24 favorites at our association. We do lobbying and this is  
25 our number 1 lobbying issue right now. And I think this



1 is one where something can be done to change the Patent  
2 System this year - there is a bill that is already past  
3 the House and it is in the Senate, HR1561, and that is a  
4 bill that brings about \$200 million additional into the  
5 PTO, it has a provision to stop Congress from diverting  
6 that money to unrelated government programs. And the  
7 people that are working on this, Carl, in answer to your  
8 point, consider that their support for this bill is  
9 contingent on the Patent and Trademark Office improving  
10 quality in the several ways that the PTO has outlined in  
11 our 21<sup>st</sup> Century Strategic Plan. That plan is very  
12 detailed, it has some things mentioned here like the  
13 second pair of eyes, but they also are calling for money  
14 for more recruiting of talented examiners, for better  
15 training of examiners, for re-certification of the  
16 competence of examiners, and a number of other things.  
17 And we think the appropriators and the Judiciary  
18 Committees in Congress are looking at this as a  
19 commitment by the Patent and Trademark Office to do these  
20 things if the bill passes, and I do not think that giving  
21 this money means more patents, although it does mean  
22 working off this terrible backlog in the electronics  
23 areas, but it means more quality, too.

24 PROFESSOR SHAPIRO: Okay, Gary? I know you  
25 are close, as well, to this process.

1                   MR. GRISWOLD:    Yeah, I have personally spent a  
2                   lot of time on this legislation and also on the 21<sup>st</sup>  
3                   Century Strategic Plan.  Definitely, we would not support  
4                   this extra funding if it wasn't because we thought the  
5                   21<sup>st</sup> Century Plan would turn into something, and we will  
6                   be watching every step of the way.  So that is the way we  
7                   look at it.  Relative to any combined - so we support  
8                   this - we support an end of diversion.  We will not  
9                   accept increasing our fees 15-25 percent, which is  
10                  substantial for everybody, without having an end to  
11                  diversion.  That money has to go to the PTO to fix the  
12                  PTO, and that fix is in there.  Looking at Recommendation  
13                  5 which you mentioned, the second pair of eyes, and the -  
14                  we supported the second pair of eyes and the forging the  
15                  balance between the public interest and the applicant's  
16                  interest, and we always looked at it that way, but I  
17                  think there was a period where the PTO got a little off  
18                  on a tangent of talking about customers.  The public is a  
19                  big customer at PTO, so, anyway, that is the AIPLA.

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

25                 MR. MYRICK:    Just a quick one.  One thing that

1 is not in the Strategic Plan, the 21<sup>st</sup> Century Strategic  
2 Plan, at least explicitly, and I think it is implicitly,  
3 in fact, avoided. As Mark well described today, and I  
4 think as was mentioned earlier by Jeff, in most of the  
5 Org units, they have 17 hours to do the entire job as  
6 examiners. In the bio art units, I think they get 25.  
7 That is an awfully little amount of time to be able to do  
8 the job they have to do. The 21<sup>st</sup> Century Strategic Plan  
9 does not address the fact that examiners need more time.  
10 And I would personally like to see - and this is a  
11 personal opinion - some reallocation of some of those  
12 resources to give examiners more time to do the job  
13 because I am not sure how you get more quality if you are  
14 trying to jam more stuff through the same mental pipes in  
15 the same amount of time.

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

20 MR. SACOFF: I just wanted to add a quick note  
21 on the anti-diversion. Everybody lines up on that, but  
22 since this is the one thing we actually do have ABA  
23 policy on, and I wanted to qualify myself, I wanted to  
24 point out that calling for an end to the diversion of the  
25 PTO user generated fees not only is a policy of the ABA

1 IPL Section, it actually has been escalated to a policy  
2 of the American Bar Association, all 420 or whatever they  
3 are thousand, the lawyers, and it was actually escalated  
4 to one of the 11 or 12 legislative priorities of the  
5 American Bar Association, you know, along with death  
6 penalty issues and everything else. That is how  
7 important this is viewed in the ABA as a matter of jobs  
8 in the economy.

9 PROFESSOR SHAPIRO: And I won't ask whose  
10 jobs. Jeff?

11 MR. KUSHAN: I don't want to prolong this, but  
12 we do have a slightly different perspective in BIO than  
13 in some of the other trade associations on some of the  
14 minutiae of this question. As I mentioned before, there  
15 needs to be - in the biotech area, we are being subjected  
16 to a process which yields way too many patent  
17 applications sitting inside the Patent Office, and that  
18 has created an overhead and a backlog which is  
19 essentially artificial, and so there needs to be a more  
20 coherent look at how the Patent Office has structured its  
21 examination policies to get a better work product out.  
22 There are two elements of this, one which we have great  
23 passion about is this issue of dividing of the  
24 applications unnecessarily. That is very inefficient to  
25 take and essentially segment over time and among

1 different examiners a single invention for examination.  
2 The second thing which has kind of dropped off the radar  
3 screen, which we think is unfortunate, is the idea of  
4 deferred examination, or non-mandatory examination of  
5 every single patent application that comes in. There is  
6 a huge wave of patent applications that lands at the  
7 Patent Office every year, and very few of them two years  
8 out, or one year out, have the same passion of commercial  
9 value for the applicant.

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

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

23

24 PROFESSOR SHAPIRO: Okay. Just to frame the  
25 whole pendency question, in the 21<sup>st</sup> Century Strategic

1 Plan, the PTO says they hope to achieve 27 months overall  
2 patent pendency as a goal by 2008. I was not impressed  
3 particularly, but I guess it is a lot of work, so that is  
4 the sort of thing we are talking about anyhow. So it is  
5 not about to go away. Kulpreet, you had a quick comment  
6 here?

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

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

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

14               MR. MYRICK: I do remember. There is a quid  
15      pro quo here. People are giving disclosure of their  
16      vital information which they otherwise could keep as a  
17      trade secret for some period of time, an exchange for a  
18      patent. However, with the current pendency, or the  
19      target pendency at 27 months, 2008, they may not even  
20      know on the date of 18 months that they have to have  
21      their application published, whether or not they are  
22      going to get any patent at all. And I think it is  
23      incumbent upon the system to not put the applicants in  
24      the bind of having to bet on the outcome. They do not  
25      know whether they are going to get an examination that is

1       going to give them a patent when they have to let that  
2       disclosure go, so they may have to let it go in the dark,  
3       and that is not fair. I think what we should be  
4       targeting is that, first, at least the first office  
5       action, telling them whether or not they have got  
6       anything at all in prospect to be provided to them  
7       sufficiently in advance of the 18 month publication date  
8       so that they can decide whether or not they want that  
9       publication to go forward, or would like to withdraw the  
10      case. Now, that is only fair. And because they are  
11      giving up significant rights by that publication and they  
12      do not know anything at this time, at least in some arts,  
13      particularly in the longer pendency arts such as the  
14      computer arts and the information arts. So it is I think  
15      a challenge to the system to improve the system at least  
16      that much - in many of the arts. By the way, I have to  
17      say, having been with a rather large company that Todd  
18      mentioned recently, that we did not have a lot of this  
19      problem in many of the businesses we ran. Of course, we  
20      ran a lot of businesses, but I think it is a problem that  
21      is endemic in some of the information technology  
22      businesses.

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

25               MR. BARR:     Although I agree it is a problem, I



1       always thought it was a great feature when I was a  
2       prosecutor that we could just tell the client they could  
3       decide at the end whether to give up their trade secrets,  
4       but, Ron, why if it is something valuable, then the  
5       chances of getting a patent are pretty high? So if your  
6       assumption is they are giving up something valuable, why  
7       wouldn't they get a patent?

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

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

22             PROFESSOR SHAPIRO:   Well, like I said, I view  
23      that as sort of a nuance, possible angle, and the one  
24      area where somebody might object to this, I guess, it  
25      seemed to me, and then there is some back and forth on

1       that. But overall, extremely strong support for that  
2       and, again, many patents have been subject to this  
3       already so we have evidence that it does not appear to be  
4       causing problems. So this is kind of clean it up and get  
5       it done for 100 percent.

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

21              MR. GRISWOLD: Yeah, I have been a prior use  
22      buff since the early 90's when actually the senate first  
23      passed a bill that was a broad prior user right, which  
24      did not pass the House in time. But, the AIPLA view on  
25      this is that we don't believe there should be a prior use

1 right that attaches to something - a use that begins  
2 after the effective filing date. We believe that the  
3 prior user right statute today that has some limitations  
4 on subject matter and has a requirement that there be a  
5 one-year reduction in practice one year prior to the  
6 filing date, and that it does not include substantial  
7 preparation, that the statute should be changed to fix  
8 those things. But we don't believe in moving - we don't  
9 support moving the date downstream so that would occur  
10 during the prosecution. You get into all sorts of  
11 unintended consequences where we are not even sure of,  
12 including more derivation questions, and so we don't  
13 support that. We think that the publication of patent  
14 applications helps us - all applications will help us on  
15 the issue of some patent claims showing up later that  
16 will be a problem, not perfectly, but that is our  
17 direction and belief.

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

20 MR. SACOFF: I think we are pretty consistent  
21 with that. Just in the interest of brevity, let me read  
22 you the pending resolution that we have got subject to  
23 adoption. "It is resolved that the Section supports in  
24 principle the commercial use, including substantial  
25 preparations for commercial use should be recognized as a

1 personal defense to patent infringement if undertaken in  
2 good faith by a person who has reduced the patented  
3 invention of practice prior to the effective filing date  
4 of the patent. Specifically, we support an amendment to  
5 the American Inventors Protection Act in '99 providing  
6 for such rights to remove restrictions on the enjoyment  
7 of such rights inconsistent with this principle." And  
8 those are some of the limitations that Gary was referring  
9 to.

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

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

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

25 MR. BARR: What are you saying? You are

1 saying that the industry representatives support it, but  
2 the organizational ones don't. Is that what you are  
3 saying?

4 PROFESSOR SHAPIRO: No.

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

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

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

25 PROFESSOR SHAPIRO: Okay, so it wouldn't just

1       apply to business methods, it would spike in that  
2       dimension -

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

5               PROFESSOR SHAPIRO:   And you don't need to do  
6       it one year before the application -

7               MR. GRISWOLD:    Right.

8               PROFESSOR SHAPIRO:   Any time before.  You  
9       would support that, but not so much in this continuation  
10      -

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

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

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

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

25              MR. KUSHAN:   I will mention that I am not

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

13 PROFESSOR SHAPIRO: I heard about that, yes.

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

18 PROFESSOR SHAPIRO: Okay. I want to make sure  
19 we have enough time for Commissioner Thompson to take us  
20 forward from here, so let us move on to 9, the  
21 willfulness and I will again read that. "Enact  
22 legislation to require as a predicate for liability for  
23 willful infringement either actual written notice of  
24 infringement from the patentee, or deliberate copying of  
25 the patentee's invention knowing it to be patented." I

1 will say - we are going to keep this very brief - that  
2 there is a widespread view that the current willfulness  
3 rule is not working well, it is disrupting the  
4 disclosure, there are people who don't want to even read  
5 patents, and it gets involved with this whole issue of  
6 when you waive attorney-client privilege. And Mark  
7 Lemley has written a great article on this, like  
8 everything else. So there is a lot of support here. Of  
9 course, we get into the particulars. But I did find, I  
10 mean, in addition to the associations which want to see  
11 some change here, we do have the Knorr-Bramsey case, so a  
12 lot of people are saying, "Well, let's wait and see  
13 exactly how that plays out and then we'll see what else  
14 we need," which seems to me is hard to argue with since  
15 it should happen this year, I guess. We heard a little  
16 bit from some companies - I was impressed with the  
17 strength with which a number of company representatives  
18 felt like this willfulness thing is a real - is a problem  
19 that can be fixed and they want it to be fixed. I don't  
20 know if you guys want to kind of weigh in on that, but I  
21 heard that a lot and I think that should come through  
22 today, not just from me, but from you guys.

23 MR. MONAHAN: Yeah, I think it is probably  
24 because this is one of the biggest distortions of the  
25 system. This is one of the greatest imbalances. All of



1       those - that extra ten percent of applications probably  
2       doesn't do me much good because I'm afraid to look at  
3       them anyway. I have been threatened with letters with  
4       patent applications, not just patents, so I get to double  
5       my fun. I think that we support some standard that gives  
6       us some certainty. I want to know that something is  
7       required before I am on notice. I want to be able to act  
8       reasonably, I want to be able to act responsibly within  
9       my industry to try to do the right thing. Right now,  
10      there are a million different facts which are brought to  
11      bear and parties attempting to demonstrate willfulness.  
12      Oddly enough, notice is usually not one of them, at least  
13      in my experience. It is usually something which, again  
14      in my experience, was intentionally deceptively  
15      orchestrated by a plaintiff's lawyer or by a company, and  
16      I am not asking to avoid responsibility; if you think I  
17      am infringing something, just let me know. But when you  
18      get these squirrely letters, or you get invitations to  
19      license which later get conveyed to a jury as a "you must  
20      have known, you must be willful," that is a problem.  
21      And, of course, the result is that when you do your  
22      settlement analysis, even as tough as we are in fighting  
23      these cases, you have to factor in that additional factor  
24      of, "God, what if the worst thing happens and we get  
25      treble damages?" And, you know, I have been lucky so far

1 not to see treble damages, but it is a factor which, like  
2 punitive damages in civil cases, I think is out of  
3 control now, particularly in places like Marshall, Texas,  
4 which is why a lot of people are settling cases that are  
5 based upon patents which probably should not have ever  
6 gotten out of the Patent Office.

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

9 MR. RANA: Yeah. I think we face some of the  
10 same difficulties that Jay was referring to. We receive  
11 letters kind of regularly, increasingly as we have become  
12 more visible. We are a bigger target. I think we are  
13 definitely aligned with the FTC's proposal in the sense  
14 that if you deliberately copy with knowledge that  
15 something is patented that, you know, it makes sense that  
16 that would give rise to willful infringement. I am a  
17 little more - I would like to think a little bit more  
18 about the Notice Letter provision of the FTC's  
19 recommendation just because I do kind of wonder what  
20 effect that will have on people's behavior and whether  
21 that will give rise to - I already get plenty of notice  
22 letters, I do not particularly want to get a ton more  
23 that I am going to have to spend a lot of time to review.  
24 And I think it would be interesting to maybe think about  
25 how that could tie into - for there to be some kind of a

1 consequence for people who issue notice letters, for  
2 example. And maybe that ties into things like post-grant  
3 review that we have been discussing earlier, where maybe  
4 if you issue a notice letter that creates sufficient  
5 reasonable apprehension that the person receiving it  
6 could initiate some kind of a review, and maybe the cost  
7 associated with that is enough to regulate the conduct of  
8 the people who are, you know, sending those out. So I  
9 think it is an interesting thought. There are some  
10 things to kind of think through a little bit more there.

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

13 MR. EPPENAUER: Oh, sure. As I said before,  
14 we strongly support this recommendation. In response to  
15 your comment, I think that if you have this burden placed  
16 on the letter writing, that will reduce the letter  
17 writing because, you know, in our experience when you  
18 challenge somebody to send you sort of a soft letter, to  
19 prove it up, it takes a long time to get that information  
20 from them, and yet you are still in a willfulness  
21 situation. So I think it is really going to help. We  
22 are strongly in favor of it and we are strongly in favor  
23 of removing adverse inference and trying to avoid the  
24 whole waiver of attorney-client privilege, which is a  
25 real problem in litigation.

1                   MR. MONAHAN:    Let me just add that, I mean,  
2                   right now the letter writers have their cake and eat it  
3                   too because they can send you a non-notice letter which  
4                   costs them almost nothing, and then preserve the ability  
5                   to make an argument later, and I am intrigued by there  
6                   being a consequence because, if I had a dollar for every  
7                   letter that either we never heard from again, or never  
8                   responded when we wrote to them, you know, we would be  
9                   rich. So I think this is an important area, and I am  
10                  concerned about inviting more. But I really think if you  
11                  put a consequence, you can put a standard on these  
12                  things, that the incentive to write them would be  
13                  reduced, and the people who wrote the letters would  
14                  really believe that they have a claim. And that is what  
15                  we ought to be dealing with.

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

18                 MR. BARR:    Nah, I don't have any strong views.  
19                 A couple quick things. First of all, when the letter  
20                 writers go away, that is reward in itself, so I am okay  
21                 with that one. I support the recommendation strongly and  
22                 I just don't think anyone has mentioned the real - what I  
23                 think is the most important basis for it is that we can  
24                 again allow engineers to read patents because, at least  
25                 to me there is enough ambiguity in the case law that I

1 have to discourage engineers from reading patents and in  
2 their prior art searches because that might be enough for  
3 willful infringement. But having said that, I will  
4 attempt to improve on what Mark said this time because he  
5 referred to his article, but he did not - I will improve  
6 on what he said, but not on what he wrote, and I strongly  
7 recommend that you read the article on willfulness - he  
8 can give you the cite or he can e-mail me - because the  
9 recommendation there, after he discusses all the  
10 problems, he solves the problems by proposing that  
11 wilfulness can only - and at risk of mischaracterizing it  
12 - but it can only occur at the time you develop the  
13 product. If you copy a product or a patent at the time  
14 you develop the product, then you could be libel for  
15 willful infringement, but just because you are down the  
16 road in what Professor Shapiro calls a hold-up situation,  
17 where it is very difficult to modify your product, now  
18 you get a notice and you get an opinion, but can you back  
19 out? That is a tough problem and the triple damages  
20 penalty for not getting an opinion or not producing it in  
21 court - or for not having one that satisfies the  
22 requirements is a little drastic in the hold-up  
23 situation. So I would urge everyone to read the article,  
24 or at least the last few pages, the Executive Summary.

25 PROFESSOR SHAPIRO: Okay, well, I want to

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

10 COMMISSIONER THOMPSON: Well, "Action" is an  
11 interesting word, I mean, for the Professor it - and for  
12 lawyers here, you might be interested to know that - for  
13 students and lawyers who are here, you might be  
14 interested to know that Professor Shapiro sometimes  
15 appears before me, and I do not have a bell, I do not  
16 have a rasp, and I do not even have a clock, but, you  
17 know, Casey, you need to remind me to buy those things,  
18 okay? This is very interesting. I like the technique.  
19 I am also very impressed that we are here at the end of a  
20 Friday afternoon and there are actually more people here  
21 than we started out with this morning. And that is very  
22 impressive because I began this morning by noting that  
23 today's event had the potential to be a watershed moment  
24 in the future of innovation in the U.S. Now, some might  
25 criticize that statement as a bit of puffery, but based

1 on the excellent discussion that I have heard today, I am  
2 convinced that is true. So at the outset,  
3 congratulations, give yourselves a hand.

4 Now comes the hard part. How do we take our  
5 gaggle of bright ideas and keen insights about patent law  
6 and process and turn them into something more meaningful  
7 about innovation in our economy? Or how do we capitalize  
8 on this opportunity to make the Patent System more  
9 accommodating to innovation in the world that we see  
10 today, especially in high technology and biotechnology?  
11 And here I might have a few suggestions. First, I would  
12 encourage the people in this room to create an organized  
13 and continuing voice of technology and academics to take  
14 advantage of the opportunities to support innovation  
15 through improvement of our Patent System. I am always  
16 struck sitting in that strange place called Washington,  
17 D.C., that when you are considering some questions like  
18 these questions I am reminded of the movie Ghostbusters -  
19 "Who you gonna call?" And all of these people have  
20 interesting views, and in looking at our report, it is  
21 important to recognize it took almost two years to locate  
22 all of those resources, and most policy makers are not in  
23 that position. So creating an organized and continuing  
24 voice is very important. Second, I think it is also  
25 helpful to create an ongoing resource for policymakers so

1       that we can understand how intellectual property is used  
2       in Information Technology and Biotech. In the context of  
3       doing this report and being here, and listening to the  
4       many people, some of which are here today, I thought it  
5       was very enlightening to hear not only viewpoints, but  
6       positions and practices, anecdotes, and data. Sometimes  
7       that information doesn't filter very well back East.  
8       Holding yourself out as a resource is very important.  
9       Third, I would implore you to continue the momentum  
10      generated here by developing ongoing mechanisms to  
11      discuss among yourselves the specific issues raised here  
12      today, and identify areas of consensus. Fourth, and  
13      maybe this is something that is a bit of a challenge to  
14      all of us, is talk to the public about your stake in  
15      innovation and in intellectual property, and why it is  
16      important to them. And be able to talk about the markets  
17      that you deal in and how fast they change. In other  
18      words, tell people why this issue is important. Now, I  
19      am happy to say that I can make an announcement here, and  
20      I don't want people to say that this is a light  
21      announcement because I think it is significant, that a  
22      core group of leading technology companies are willing to  
23      take the first step today by working together, and it may  
24      start by a public announcement, that they agree that  
25      there is an opportunity to make the Patent System more



1 responsive to technology and innovation, and that they  
2 agree to meet and have a continuing dialogue among  
3 themselves, academics, and policy makers about the  
4 proposals discussed here today. Now those companies  
5 include CISCO, Intel, eBay, Semantec, Chiron, Microsoft,  
6 and Genentech. So with that announcement, I think you  
7 are off to a very good start. And I thank you all for  
8 getting us to this point.

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

14 (Whereupon, the workshop concluded.)  
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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