FEDERAL TRADE COMMISSION

PATENT REFORM WORKSHOP

APRIL 16, 2004

BANCROFT HOTEL, BERKELEY, CALIFORNIA

For The Record, Inc.
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PROFESSOR MERGES: Okay, I think it is probably time to get started here. We have had our April sprinkles, so we are all woken up and ready to go onto the substantive part of the program. I just want to welcome everybody back on behalf of the Berkeley Center for Law and Technology and U.C. Berkeley, generally, plus all of our many co-sponsors. Thanks for coming out.

Today is the substantive part of the program. We are going to dig into some details from the Federal Trade Commission Report. And now that the press has gone off to file their stories from yesterday, we might actually hear some more meat and potatoes on the National Academy of Sciences Report, too, I am told. So today is going to be a real good day.

For those of us who used to teach patent law courses to rooms not so full of 12 or 16 somewhat desultory students, it is always kind of mind numbing to realize that patent reform and patent law generally has gotten to be such a hot topic.

I also wanted to say while I had a chance that this is sort of our last chance to say farewell on behalf of the Berkeley Center for Law and Technology to our colleague, Mark Lemley, who is leaving us soon for that
university down by the old railroad here, and Mark has

done just tremendously wonderful things for us, and I

just wanted to take this opportunity to publicly thank

him for all his good work and to wish him the very best.

We are sad on a personal level that he is going and we

are going to miss having him around.

Just a quick note of what is going on now and

what is coming up. On April 20th, which is a moderately

typical day around here, we have a roundtable coming up

on the technology and digital content industries, a

roundtable. And we have people coming in from I-tunes

and the Electronic Freedom Foundation, from the

powerhouse Hollywood entertainment law firm, Mitchell-

Silverberg, and we have people coming up from Universal

Music to talk about what is going on with the digital

content industries and how the technology companies can

get in the game and how those guys can cooperate. And

that is typical of the kind of activities that we always

have going on.

On the same day, I think, the Computers,

Freedom, and Privacy, the CFP Conference, which is an

internationally famous conference, begins over at the

Claremont. This year it has been organized and largely

energized by our own Deardra Mulligan from the Samuelson

Clinic, and we are proud to be participating in a very
strong way in that this year. We just finished our Intellectual Property Speaker Series, and I think the last two people through are typical of the kind of folks that we have coming up here to Berkeley now. We had Peter Nelson, who was the main lawyer for the Lord of the Rings movies, and when my 12-year-old son heard about that, he wanted a ticket to get in. We also had Jay Cooper, who is Jerry Seinfeld’s lawyer, which has to be one of the more interesting jobs in the world. He came and spoke to us also.

In the Samuelson Clinic, they always have a lot of good activities going on, let me just name two that are currently under way. One is they are beginning a multi-year project on the issue of pervasive censors and privacy issues that go along with that. That is something that many of you have probably heard about if you read the science pages, but it is one of those issues that is likely to percolate up to the front page of the New York Times one of these days and, when it does, Pam Samuelson and the Samuelson Clinic, Deardra Mulligan, and others, will be the people that the New York Times call because they will have been studying it for five years and will know all about it.

We also have a major initiative coming in on Intellectual Property and Entrepreneurship. The George
Kaufman Foundation in Kansas City, which is sort of the premier philanthropic organization that funds research on entrepreneurship has given us a seed grant to begin some research in that area, so that is a major initiative also probably over the next few years. And one last project is another Samuelson Clinic Project. The Electronic Freedom Foundation has heard the calls in terms of the need for a public interest patent re-examination effort. I was just talking to somebody about that yesterday. There is a need for a public interest organization to try to identify sort of high social cost bad patents, and to go after them. And the EFF is teaming up with our own Samuelson Clinic in an initiative to start that process here at Berkeley. So you can see why we are not going to have too much time to hang our heads -- tons of great stuff going on.

The list goes on and on and on every year. Of course, the reason that happens is that we have this community of people who keep coming back and who keep feeding us with fantastic and interesting ideas, keep us on the cutting edge, and create this really interesting mix that makes this whole thing really work.

One more thing does come to mind, actually. I think we are going to have kind of an informal student lunch with some lawyers from the Morgan Lewis firm, and
they were involved in the Microsoft Intertrust Patent settlement recently. And that is exactly the kind of thing that prospective students love to hear about because that is kind of insider information that is hard to get anywhere else, and it is coming here in a very timely way, and when you come here that is the kind of stuff you are exposed to. And, you know, frankly that is one of the reasons that we are really pleased with the organization we have built and super excited for the future.

So, anyway, after that plug for everything that we are doing, let me also say, before I forget to thank, once again, David Grady and Helane Schweitzer, who have really put so much effort into this conference, and they are the kind of professionals that make the Center really run and really make it what it is. I also want to thank our new Dean, Chris Edley, for making some comments yesterday. There is a tremendous feeling of excitement at Boalt, generally, with Dean Edley and his interest in the Center is something that we are very pleased with.

Okay, today’s main topic is the real substantive issues involved in patent reform, and to start us off on that topic, I am going to introduce Mark Myers in just a second; however, let me just make two sort of housekeeping notes before we get to Mark. The
first is that we are being transcribed. We are being recorded for transcription, so I thought I better give fair notice to everybody. The transcript will help the editors of the Berkeley Technology Law Journal when they prepare the Journal issue that will come out of this conference. How did I forget the BTLJ? There are so many exciting things going on there I could go on for half an hour just on that. They are one of the keystones, the cornerstones of what makes this thing work, too.

When the conference issue is published for this conference, it will automatically be, you know, one of the most prominent sort of sources of information on the current debate around patent reform. And when we have young scholars around the country publishing their kind of crown jewel, their treasure pieces that they are trying to get tenure with, in the BTLJ, and considering that a coup, we know we have really built something that is quite special. So there is my BTLJ plug, which I almost forgot.

Back to the housekeeping. So we are going to transcribe, just in case anybody needs to know that, and the second issue for those of you who are speakers, we have a dedicated laptop here in this position, and so the trick is going to be if you have Powerpoint to kind of
rotate through to the presenter’s spot, and I would ask you to bring your name tag when you do that so we all know who you are, and so the transcriber can know who you are, and then just kind of circulate to the empty chair if you are the speaker who is finishing. Okay? So with those housekeeping notes, let me turn it over to Mark Myers who has promised some real substantive comments for us this morning. Thank you.

MR. MYERS: Thank you. I am Mark Myers. I was Co-Chair of the National Academy of Sciences study with respect to Intellectual Property, which we have named “The Patent System for the 21st Century.” And this study was carried under the Science Technology Economic Policy Board of the National Research Council, which looks at issues of technology, economics, and policy.

The conditions that we’re interested in is, basically over the last 50 years there has been a significant and continuing strengthening of the patent processes within the United States and the world. You have had patenting extended to new technologies in the biotech area, patenting extended to technologies that previously were not subject to this form of intellectual property, such as software, the encouraging emergence of new players, universities and public research institutions, strengthening of the position of patent
holders vs. alleged infringers, and relaxed antitrust constraints on patent use, and the extended reach of patenting upstream into scientific tools, materials and discoveries.

So this has been a 50 year period of greatly enhancing the Patent System. But it has created strains. Patents are being more zealously sought and aggressively enforced, the volume is increasing, the cost is increasing, and the benefits of a patent stimulating innovation varies considerably across different parts of the industrial sector.

So, in fact, as we undertook the study four years ago, there are several of the members of this study that is within the group. We basically are a committee composed of economists, scientists, engineers, inventors, business majors, legal scholars, as well as practitioners with a great variety of experience.

An important part of the study was in fact - the first phase was defining the problem and then a second phase was defining solutions. But to define the solutions, we carried out nine areas or contracted research, and that research is available, it has been published, published about a year ago, and it deals with patent quality and examination, two studies -- patent challenges in Europe and the United States, two studies,
litigation, two studies, patenting software, patenting internet business methods, and licensing and Biotech.

The focus of our study was restricted to looking at the patent system, particularly with respect to issues of backlog and the productivity of the system, as well as two problem areas which were in biotech and business practice patents. So, we looked at the patent system really through the lens of seven criteria, that we desire as we go forward; a patent system that can accommodate new technologies with flexibility, a system that rewards only inventors that meet the statutory tests of novelty, utility and meet the obviousness standard, a patent system that is effective at disseminating information, administrative and judicial decisions are timely and at reasonable cost, access to patented technologies is important to basic research, and in the development of cumulative technologies.

Greater integration or reciprocity is needed among three major patent systems, that is, Japan, the United States, and Europe to increase the overall productivity and reduce the transaction costs. And there should be a level playing field that all holders of patents are subject to the same benefits and constraints in all jurisdictions.

So we have seven recommendations. These
recommendations will formally be announced next Monday. The documents are being shipped today for those who are expecting to receive it. But the seven that we are recommending is: Preserve an open-ended, unitary, flexible patent system -- I will say more about that; reinvigorate the non-obvious standard -- you have a panel with respect to that today and that discussion is an important one; institute an open review procedure -- another panel that is being held today and an important discussion; strengthen the U.S. Patent Office resources; shield some research uses of patents from liability and infringement; modify or remove the subjective elements of litigation; and reduce redundancies and inconsistencies among national Patent Systems.

I will just make a few remarks about some of the key areas of this. Preserve an open-ended unitary Patent System, flexible -- as one thinks about approaching the area of remedy, of issues that there is actually in litigation, but there is also working within the procedures with the Patent Office and the judicial system itself, and that there are some advantages, significant advantages, of making the changes through the work processes of the Patent Offices and the precedents of the judicial system because legislation is a much less flexible way to work, and so we make a number of
recommendations in that area.

Re-invigorate the non-obvious standard -- we have considered the non-obvious standard extremely important. We believe that there has been some lowering of the bar of that standard, it is a hard issue to deal with, that in business method patents which we have a concern in that area, there are different solutions that one would consider in biotech. And so approaching this is probably going to require remedies very specific to the technology area.

A key area with respect to our recommendations is to institute an open review procedure. We looked, as I indicated in our studies, intensively at the European system. The European system brings many of the benefits that we feel a third party initiated review that can challenge a patent under any standards in the USPTO, and that the outcome of that would be confirmation, cancellation, or amendment of any claim. Or, we envision the courts, the District Courts, or the Court of Appeal could also refer validity questions to such a body, and then there would be an appeal process to the Board of Patent Appeals and to the Federal Circuit.

One of our studies with respect to the economics of such a system finds significant social welfare economically that such a system would bring
compared to our current legal processes and, so, if properly designed, and I do not believe such a system has been properly designed, that yet there is great opportunities.

I think given the time, I am not going to go further into the strengthening of the USPTO, other than we need to address the issue of adequate compensation for examiners, as well as adequate numbers of examiners. But, also, there are significant investments in electronic file processing and database searches that need to be funded and supported.

It would be impossible for the National Academy not to remark on protecting the interest of basic research, and we feel that the Madcy-Duke Decision creates a cloud that needs to be addressed, and that there are both legislative and administrative actions, strategies that could be considered to remove that cloud. And the final two that I will just mention is that we believe in an overall tone of making a more productive, efficient system, that we need to remove those processes that are not really contributing to the working of the system, and that is why we propose removing the subjective elements of litigation which would include best mode, willful infringement, and that would help, also, with respect to some of the
organization issues.

And, finally, with respect to harmonization, that there are issues that we feel there needs to be trilateral, bilateral negotiations between the major Patent Systems -- that is, Europe, United States, and Japan. The issues for harmonization would be application priority, of course a grace period for filing, best mode U.S. exception to the rule of publication. I think those are manageable.

I did speak at the Conference of the European Commission Patent Office in November in Strasbourg. Another raised there when we discussed this and the issue of business practice patents for Europeans will be a harder problem to resolve. I am not implying that others will be easy, but that one would be more intractable.

That, I think, is a quick run-over.

PROFESSOR MERGES: Okay, so now we know what to look for when we get our NAS reports in the mail. Let me now quickly introduce Commissioner Mozelle Thompson from the FTC, again, for a couple of quick comments so we can get going on our panel. Thank you.

COMMISSIONER THOMPSON: Good morning. You know, for all of you students who spent most of your legal career trying to avoid early classes on Friday, this is what you have to look forward to.
Well, it is good to see all of you here today and you must be all very committed to the idea of patent reform. You know, the Commission has been looking at the subject of technology and competition and innovation for quite a long time.

Yesterday at our press conference, I mentioned that one of the most critical issues facing us in America is how we maintain our position as a world leader in innovation because innovation has played a central role in economic growth in the United States, and providing consumers with products and services that are of the highest quality, the greatest variety, and lowest cost. And I also noted that no one knows that better than the people here in Northern California who have witnessed the impact of innovation and the transformational effects it has.

And so, it was appropriate for us to come here almost two years ago to conduct hearings and meet with industry that was based out here to talk about competition and intellectual property, and it is similarly fitting that we come back here now that we have issued a report that makes certain recommendations about patents. That report provides a variety of perspectives about the goals and policies behind patent law and competition and their interaction, and how we might be...
able to do better in supporting the future of innovation.

Now, how many people here are from industry? And how many people here are from academia? And how many people here are just looking for a way to make money off either -- no -- are here to advise others as to how they should think about the future of patents? Okay. I think that is a pretty big deal. I think that is a pretty big deal because, collectively, you are all sitting here at this event in what I think is going to be a watershed event, to talk about what the future of innovation is going to look like. Those opportunities do not occur very often, and a group of people like this one actually do not sit together and talk about it very often. So it is your opportunity to give voice to perspectives that, frankly, do not often get aired and especially do not get heard very often in Washington, D.C. where we are charged with looking at policy and have to look at what the future is going to be.

So I am happy to participate, to see you all here talking about the details of our report -- Susan DeSanti here may not be quite as comfortable looking at the details of our report, she has been living with it for all of this time. But it does give us a chance, perhaps, to take a step back and think about this important opportunity that we have because many of you
are stakeholders. You have a stake in what the future
outcome is going to be. And to the extent this year
represents the beginning of a critical mass, especially
out here on the cutting edge of innovation, I am very
happy to see you.

So I can tell you that the Commission itself
will continue to be committed to this area. We are happy
to provide at least an initial framework for discussion,
and I hope at the end of the day to be able to talk about
some of the observations that we may be able to make
collectively. So thank you very much and we will see you
throughout the day.
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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