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3 FEDERAL TRADE COMMISSION  
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7 PATENT REFORM WORKSHOP  
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9 APRIL 16, 2004  
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14 BANCROFT HOTEL, BERKELEY, CALIFORNIA  
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## P R O C E E D I N G S

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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

1 university down by the old railroad here, and Mark has  
2 done just tremendously wonderful things for us, and I  
3 just wanted to take this opportunity to publicly thank  
4 him for all his good work and to wish him the very best.  
5 We are sad on a personal level that he is going and we  
6 are going to miss having him around.

7 Just a quick note of what is going on now and  
8 what is coming up. On April 20<sup>th</sup>, which is a moderately  
9 typical day around here, we have a roundtable coming up  
10 on the technology and digital content industries, a  
11 roundtable. And we have people coming in from I-tunes  
12 and the Electronic Freedom Foundation, from the  
13 powerhouse Hollywood entertainment law firm, Mitchell-  
14 Silverberg, and we have people coming up from Universal  
15 Music to talk about what is going on with the digital  
16 content industries and how the technology companies can  
17 get in the game and how those guys can cooperate. And  
18 that is typical of the kind of activities that we always  
19 have going on.

20 On the same day, I think, the Computers,  
21 Freedom, and Privacy, the CFP Conference, which is an  
22 internationally famous conference, begins over at the  
23 Claremont. This year it has been organized and largely  
24 energized by our own Deardra Mulligan from the Samuelson  
25 Clinic, and we are proud to be participating in a very

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

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

24 We also have a major initiative coming in on  
25 Intellectual Property and Entrepreneurship. The George

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

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

23 One more thing does come to mind, actually. I  
24 think we are going to have kind of an informal student  
25 lunch with some lawyers from the Morgan Lewis firm, and

1       they were involved in the Microsoft Intertrust Patent  
2       settlement recently. And that is exactly the kind of  
3       thing that prospective students love to hear about  
4       because that is kind of insider information that is hard  
5       to get anywhere else, and it is coming here in a very  
6       timely way, and when you come here that is the kind of  
7       stuff you are exposed to. And, you know, frankly that is  
8       one of the reasons that we are really pleased with the  
9       organization we have built and super excited for the  
10      future.

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

21               Okay, today's main topic is the real  
22      substantive issues involved in patent reform, and to  
23      start us off on that topic, I am going to introduce Mark  
24      Myers in just a second; however, let me just make two  
25      sort of housekeeping notes before we get to Mark. The

1 first is that we are being transcribed. We are being  
2 recorded for transcription, so I thought I better give  
3 fair notice to everybody. The transcript will help the  
4 editors of the Berkeley Technology Law Journal when they  
5 prepare the Journal issue that will come out of this  
6 conference. How did I forget the BTLJ? There are so  
7 many exciting things going on there I could go on for  
8 half an hour just on that. They are one of the  
9 keystones, the cornerstones of what makes this thing  
10 work, too.

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

21 Back to the housekeeping. So we are going to  
22 transcribe, just in case anybody needs to know that, and  
23 the second issue for those of you who are speakers, we  
24 have a dedicated laptop here in this position, and so the  
25 trick is going to be if you have Powerpoint to kind of

1 rotate through to the presenter's spot, and I would ask  
2 you to bring your name tag when you do that so we all  
3 know who you are, and so the transcriber can know who you  
4 are, and then just kind of circulate to the empty chair  
5 if you are the speaker who is finishing. Okay? So with  
6 those housekeeping notes, let me turn it over to Mark  
7 Myers who has promised some real substantive comments for  
8 us this morning. Thank you.

9 MR. MYERS: Thank you. I am Mark Myers. I was  
10 Co-Chair of the National Academy of Sciences study with  
11 respect to Intellectual Property, which we have named  
12 "The Patent System for the 21<sup>st</sup> Century." And this study  
13 was carried under the Science Technology Economic Policy  
14 Board of the National Research Council, which looks at  
15 issues of technology, economics, and policy.

16 The conditions that we're interested in is,  
17 basically over the last 50 years there has been a  
18 significant and continuing strengthening of the patent  
19 processes within the United States and the world. You  
20 have had patenting extended to new technologies in the  
21 biotech area, patenting extended to technologies that  
22 previously were not subject to this form of intellectual  
23 property, such as software, the encouraging emergence of  
24 new players, universities and public research  
25 institutions, strengthening of the position of patent



1 holders vs. alleged infringers, and relaxed antitrust  
2 constraints on patent use, and the extended reach of  
3 patenting upstream into scientific tools, materials and  
4 discoveries.

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

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

18 An important part of the study was in fact -  
19 the first phase was defining the problem and then a  
20 second phase was defining solutions. But to define the  
21 solutions, we carried out nine areas or contracted  
22 research, and that research is available, it has been  
23 published, published about a year ago, and it deals with  
24 patent quality and examination, two studies -- patent  
25 challenges in Europe and the United States, two studies,

1 litigation, two studies, patenting software, patenting  
2 internet business methods, and licensing and Biotech.

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

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

25 So we have seven recommendations. These

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

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

1 recommendations in that area.

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

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

23 One of our studies with respect to the  
24 economics of such a system finds significant social  
25 welfare economically that such a system would bring

1 compared to our current legal processes and, so, if  
2 properly designed, and I do not believe such a system has  
3 been properly designed, that yet there is great  
4 opportunities.

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

12 It would be impossible for the National Academy  
13 not to remark on protecting the interest of basic  
14 research, and we feel that the Madcy-Duke Decision  
15 creates a cloud that needs to be addressed, and that  
16 there are both legislative and administrative actions,  
17 strategies that could be considered to remove that cloud.

18 And the final two that I will just mention is  
19 that we believe in an overall tone of making a more  
20 productive, efficient system, that we need to remove  
21 those processes that are not really contributing to the  
22 working of the system, and that is why we propose  
23 removing the subjective elements of litigation which  
24 would include best mode, willful infringement, and that  
25 would help, also, with respect to some of the

1 organization issues.

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

10 I did speak at the Conference of the European  
11 Commission Patent Office in November in Strassborg.  
12 Another raised there when we discussed this and the issue  
13 of business practice patents for Europeans will be a  
14 harder problem to resolve. I am not implying that others  
15 will be easy, but that one would be more intractable.  
16 That, I think, is a quick run-over.

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

22 COMMISSIONER THOMPSON: Good morning. You  
23 know, for all of you students who spent most of your  
24 legal career trying to avoid early classes on Friday,  
25 this is what you have to look forward to.

1           Well, it is good to see all of you here today  
2           and you must be all very committed to the idea of patent  
3           reform. You know, the Commission has been looking at the  
4           subject of technology and competition and innovation for  
5           quite a long time.

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

17          And so, it was appropriate for us to come here  
18          almost two years ago to conduct hearings and meet with  
19          industry that was based out here to talk about  
20          competition and intellectual property, and it is  
21          similarly fitting that we come back here now that we have  
22          issued a report that makes certain recommendations about  
23          patents. That report provides a variety of perspectives  
24          about the goals and policies behind patent law and  
25          competition and their interaction, and how we might be

1       able to do better in supporting the future of innovation.

2               Now, how many people here are from industry?

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

19              So I am happy to participate, to see you all  
20      here talking about the details of our report -- Susan  
21      DeSanti here may not be quite as comfortable looking at  
22      the details of our report, she has been living with it  
23      for all of this time.   But it does give us a chance,  
24      perhaps, to take a step back and think about this  
25      important opportunity that we have because many of you



1 are stakeholders. You have a stake in what the future  
2 outcome is going to be. And to the extent this year  
3 represents the beginning of a critical mass, especially  
4 out here on the cutting edge of innovation, I am very  
5 happy to see you.

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

## 1 Certificate of Reporter

2  
3 MATTER Patent Reform Workshop4 Date: April 16, 2004  
56 I HEREBY CERTIFY that the transcript contained  
7 herein is a full and accurate transcript of the notes  
8 taken by me at the hearing on the above cause before the  
9 FEDERAL TRADE COMMISSION to the best of my knowledge and  
10 belief.  
1112 DATED: April 28, 2004  
13  
1415 \_\_\_\_\_  
16 ADRIAN T. EDLER  
17

## 18 certification of Proofreader

19 I HEREBY CERTIFY that I proofread the transcript for  
20 accuracy in spelling, hyphenation, punctuation and  
21 format.  
2223 \_\_\_\_\_  
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25