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PATENT REFORM WORKSHOP

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MS. SAMUELSON: I am Pam Samuelson. I am one of the Directors of the Berkeley Center for Law and Technology and I have the great good fortune of being the moderator for this panel on litigation issues. If we had taken two days to have a conference, I think we would probably have one session on presumption of validity, one session on subjective factors that are often very important in litigation, and possibly one session on experimental use, and one session on discovery issues and so forth, but we decided that, for purposes of having a one-day program, we were going to kind of throw them all into one litigation panel. So this will be a little bit more of a potpourri than the previous two sessions, but I think nevertheless will both deal with some of the issues that the FTC has raised about the presumption of validity, which obviously has gotten a lot of people’s attention, but also will cover some of the issues in the National Academy Report because subjective factors were both discussed in the FTC report and also to some degree in the National Academy Report that is coming out on Monday. So we will have a chance, I think, to sort of visit quite a few issues in the course of this panel. So
I would love to give wonderful biographies of all our speakers, but they all have websites, so I will simply say this is a great group and I am looking forward to hearing from them, and first we will start with Mark Janis who will be talking about presumption of validity issues.

MR. JANIS: Thank you, Pam. Thank you for the invitation to come here, and I will try my best to reduce these remarks to just a few sound bites because no one wants to be late for lunch, I know. And I apologize if it is too fragmentary, and I will use the usual Academic’s excuse -- there will be a paper and you can read the paper -- and that will be very coherent, I promise you.

I keep hearing all this talk lately about trolls and at first I thought, “I do not need to pay any attention to this, I am from Iowa, right, we have no trolls there.” Then I began hearing that these were actually patent trolls. That got me interested and here is what I read in the transcript of a Congressional Hearings testimony within the last few months. “Patent trolls are Patent System bottom feeders who buy improvidently granted patents,” if you know what those are, “...from distressed companies for the sole purpose of suing legitimate businesses.” And this brings us to
the topic at hand because these patent trolls, according to the testimony, have the presumption of validity on their side and, so, clearly, they must be stopped. This is where the FTC comes in. It is our Federal Government here to either save us or at least here to study the matter very very thoroughly. And it should be studied very thoroughly because this is a serious matter, not just a fairy tale matter at all, this patent validity litigation and patent validity disputes. What I would like to do with my little bit of sound bite time here is to think about two functions that the presumption of validity might perform, and then I want to argue that the FTC’s proposal to reduce the standard to preponderance for overcoming the presumption of validity might overlook the first function. And as to the second, I doubt that I will have time, but I have got a few things to say about that, as well, as to the second there are arguments that are a little more plausible.

Let me tell you what I mean by two functions that the presumption might perform. Here is what the Supreme Court has to say on the matter, not as to the presumption of patent validity, but as to presumptions more generally. They might sort of do two things, 1) indicate the relative importance that society should attach to the ultimate decision. I want to call that the
“Expressive Function;” 2) allocate the risk of error usually as between the litigants, and I want to call that the “Instrumental Function.” And it is ordinary to talk about the presumption and especially the presumption of patent validity, I think, in terms of the Instrumental Function, the second way. And I think that is what you find in the FTC Report and, in fact, that is what you find in the literature – a lot of the literature – about presumptions.

So, for example, in a criminal case the State should bear the risk of error, and so we have a strong presumption of validity, beyond a reasonable doubt standard for overcoming it. Civil case for damages – parties should bear the risk of error equally, hence we have a preponderance standard. And we can build on this – and to have a nice neat menu of options like picking the wine for dinner where we have ordinary civil case, or we have a criminal case, or we have some kind of case in between that gets a clear and convincing standard. And the FTC Report, I think, makes plausible arguments in this regard. It says the patentee should not enjoy the benefit of a strong – if I can use that term – strong presumption of validity because we have concerns about the quality of patents, so therefore the patentee should be made to bear a little bit more of the risk of error,
to put it in those kind of terms. The FTC also says, and I think this is important, that the clear and convincing standard might facilitate anti-competitive uses of patents. And that is interesting because it shows us that there are obviously — and we have heard about it already today — third party effects to be concerned about here are not just a matter in patent cases of allocating the risk of error between the two private litigants, third parties have interests as well. Maybe that would lead us to think that the clear and convincing standard would be inappropriate. And those proposals are fine, but I want to turn back to the first function, the Expressive Function of the presumption of validity, and make a few comments about that. First of all, what do I mean by the Expressive Function, exactly? There is a couple of things that one could mean. One is that a rule is expressive in the sense that it is purely symbolic, it is not designed to accomplish anything except make a statement, even if it is never enforced. That would be one way to think about it, I suppose, you know, I would rule on flag burning or something like that, even if you never expect it to be enforced, the fact that it makes a statement is significant. Another example or another variety is a rule at least whose main significance is as of a statement of aspirations, or a statement of
principals, and even if it is designed to accomplish something, we do not necessarily expect to find very sharply incentives and disincentives, nor do we expect that we have real precise control over the level of enforcement, it seems to me that is another way to think about a rule that is expressive.

Let me suggest a few insights that we might gain from looking at the presumption of patent validity from this perspective, as a statement, as a symbol. One, the fact that we have a presumption of validity might be as significant, or more significant, than the precise verbal formulation that we use for the standard of evidence for overcoming the presumption; second, while it is easy enough to manipulate the words of that, the precise verbal formulation, the words of the standard, it might be very different and a very subtle exercise to manage the message, the overlying message that is embedded in this presumption of validity, and then, thirdly, manipulating the words without paying attention to the message, the overlying message, might lead to some real surprises. Ironically, it might lead to changing nothing, while changing everything. And what do I mean by that? Well, you know, suppose you change to a preponderance standard? Is it really going to make a difference -- really going to make a difference -- in the
outcome of judicial decisions? Or will judges go on and do the same thing they did before and change the words? I mean, I think there is at least some question about that. So that is the changing nothing part. Yet, on the other hand, the other actors in the system, at least in the short term, might perceive that the overall message has changed dramatically. Patents are less secure, the Patent System deserves less respect, and so forth, and the consequences that flow from that. So it might be counter-productive at the end of the day. Oh, three minutes left, I am going great. So let me just explore that a little bit by getting down to cases. First, early Federal Circuit cases dealing with the adoption of the clear and convincing standard. If you think about this, before the creation of the Federal Circuit, most courts already used the clear and convincing standard for overcoming the presumption of validity, a vast majority of them did, yet the overlying message was that the Patent System was in distress, that the presumption was meaningless. There is a disconnect between the words that we use and the overlying message. Now, to be certain, some courts were also holding that the presumption of validity did not apply to newly introduced prior art, that certainly contributed to the message. After the creation of the Federal Circuit, the Federal
Circuit adopts the clear and convincing standard. You could look at the words and say, “Well, that is hardly a watershed event, there already was the clear and convincing standard.” The Federal Circuit also spoke to this issue about newly discovered prior art and they said, “Well, the presumption still applies, but yet it may be a little easier to overcome the presumption.” You could look at that and say, “That is really no change from the law before,” yet if you look carefully at the tone of these cases, and if you combine that with other things that were happening in the Patent System at the time, it is very clear that the message had changed. And we see this in the FTC Report today and probably all of us would say the Federal Circuit has strengthened the presumption of validity and this has changed the message. Now, one minute left, so current cases – this can work the other way, that the words can stay the same and the message can change. Look at the Rochester case where the court says a patent can prove its own invalidity, and do so clearly and convincingly. The words can stay the same, but the message there is a little bit different. Look also at trademark cases – I clearly do not have time to talk about those – trademark cases where the preponderance standard is used. Take a look at a case called Burke-Parsons-Bowlby, it is an older – it is a 6th
Circuit 1989 case and you get a little bit of a scary view as to the use of a preponderance standard for overcoming the presumption of validity, very difficult to figure out what is going on there. Bottom line here – yes – I have got time for a bottom line, okay, 1) changing the words of the standard might not make a lot of difference in case outcomes. At the same time, the over-arching message that the presumption of validity sends in the Patent System is a very potent indicator of the overall health of the system, and I worry a little bit that by choosing the presumption of validity as a point of policy reform, the FTC might not have chosen wisely. They may create more of an adversarial tone than I think they ever intended to do. Now, other comments will have to wait. So thank you very much.

MS. SAMUELSON: Our second presenter will be Arti Rai.

MS. RAI: And I, too, will try to speak quickly and get everyone out for lunch at the appropriate time. I am going to focus on the presumption of validity as well, although perhaps I will take a little more sanguine view of what the FTC has done than Mark did. In talking about this recommendation I will also end up within ten minutes looking a little bit at the FTC’s recommendations on the non-obviousness standard and on
opposition proceedings, believe it or not. So bear with me.

In my view, I think the FTC has actually made some very interesting recommendations with respect to all three issues -- the presumption of validity, non-obviousness, and opposition proceedings -- and they can be viewed as a coherent whole from a procedural perspective rather than a substantive perspective -- and I will explain what I mean by how they can be viewed as a coherent whole -- but the basic insight is that I think they can all be understood by looking at the comparative competence of the various institutional actors within the Patent System. And those of you who have read my work know I love to talk about institutional competence, so you will hear a little bit more about this today. So with some caveats that I will talk about more towards the end, it seems to me that, in the context of the ordinary patent that is issued, there is good reason to set the presumptionability at a little bit of a lower level than it is currently set. Now, Mark has made some interesting points about what will be the actual impact of the FTC’s proposed change, and I think that is actually very interesting to consider empirically in the context of all sorts of different areas of law where presumptions matter and people have done empirical work, and I think we
should continue to do that in this area as well. But for
all of the reasons that the FTC and many many others have
pointed to, perhaps Mark Lemley most eloquently of all,
ranging from burdens of proof, to incentive structure, to
workload, to the ex parte nature of the proceeding, a
patent examiner’s decision to issue a patent should
probably not be the last word on its validity. And this
is true, I would argue, even despite the fact that a
patent examiner is probably the person in the Patent
System, at least the legal actor in the Patent System,
that is closest to being the all important PHOSITA. Even
despite that fact, I think that patents that are issued
are not necessarily – one should not necessarily give
much deference in the context of issued patents, which
brings me to my next point. In contrast, when the patent
examiner denies a patent, I think there is some reason to
give weight to his or her status as a quasi-PHOSITA,
which is particularly true in biotech, for example, where
the patent examiners are fairly well-steeped in the
technology. And, to put it mildly, none of the various
institutional pressures that cause the issued patents to
be somewhat problematic come into play in the context of
denials. In fact, if anything, all the institutional
pressures run against denials. So how does this all
relate to the FTC’s recommendations in the context of
non-obviousness and opposition proceedings? Well, I
would interpret the FTC’s discussion of the non-
obviousness requirement as having been prompted by
decisions by the Federal Circuit that reviewed the patent
examiner’s denial of a patent and simply refused to defer
to the factual knowledge of the patent examiner in those
context. I would argue and have argued that the Federal
Circuit should in many circumstances, if not most
circumstances, defer to a PTO fact finding in the context
of a denial. And there is particularly good reasons for
showing this kind of deference when we are talking about
a PTO’s determination that a particular combination is
obvious because, for all the reasons that were discussed
in the first panel, a PTO examiner is likely to be the
person closest to the PHOSITA in terms of thinking of
combinations of references. So in the denial context,
there is good reason to show deference, and in the
issuance context, less reason to show deference. To use
the words made popular by Condoleeza Rice recently, we
should have an asymmetric response to the PTO’s actions.
Unfortunately from the perspective of institutional
competence, thus far the asymmetric response has been
precisely backwards. We have tended to show more
deference because of this high presumption of validity to
the PTO’s actions in the context of an issuance, rather
than the context of a denial. So my view is that the FTC’s recommendations in the context of non-obviousness and opposition proceedings, particularly non-obviousness and then also its recommendations in the context of the presumption of validity are leading us towards asymmetric response in the right direction, more deference in the context of denials, and less deference in the context of issuances.

Well, what about opposition proceedings? I did mention I would talk about those. And what about the presumption of validity to attach in those contexts? Well, here I think the FTC has been pretty careful, as well. If you look carefully at the recommendations, we have said that the decision of the PTO in the context of an opposition proceeding should be reviewed deferentially always, whether the PTO ultimately decides to grant or to reject, and I think that is absolutely right as an institutional matter because if a patent has been looked at from a comprehensive adversarial perspective in the context of an opposition proceeding, there should be deference, not only on the fact finding, but on the legal conclusions as well. And for what it is worth, for those of you who remember your administrative law, this is perfectly in keeping with the way that the Supreme Court has administered the Chevron deference standard most
recently in the Mead case. So we would also nicely bring patent law into conformity with administrative law, which it often is not in conformity with.

I do have one small issue with respect to the FTC’s recommendations, well, perhaps not such a small issue, but it is an issue that I must admit I also do not have a good answer to, and that is the following: so we put in place robust opposition proceedings and there is lots of deference in the context of those opposition proceedings, not so much deference in the context of an issuance and a fair amount of deference in the context of denial. What happens if a patent goes through the system and just happens not to be challenged in an opposition proceeding, and therefore falls into the pile of patents that are subject to a thin presumption of validity? And what if the reason for its not being challenged was that it was simply a very solid patent? Should it be put into the same pile as all those patents that are subject to the thin presumption of validity because we think the patent issuances are somewhat suspect? I do think that is a problem, but as a practical matter it may be less acute a problem than one might think at the outset. For the most part, I would imagine, although of course we are all speculating here since we do not have anything remotely comparable to an opposition proceeding, on the
other hand, the European experience does tend to suggest this as well, I would imagine that the most important patents would, in fact, be the subject of an opposition proceeding, no matter how solid they were, that is, that there would be some piece of prior art that somebody would want to at least try to run by the Patent Examination procedure in the context of the opposition proceeding with respect to really important patents. So for those who are concerned, particularly in the biotech industry which I study, you know - I spend a lot of time studying - for those who are concerned, you know, what will happen if we have a lower presumption of validity for most patents, particularly for Biotech where the patents really matter, or Pharma where patents really matter, well, I would suspect that most of those patents would go through an opposition proceeding, and thus be subject to a very high presumption of validity. But that is a problem and one that is important to think about. One way of tweaking the FTC’s recommendations a little bit, perhaps, so as to not render the thin presumption of validity entirely meaningless would be perhaps to have a higher presumption of validity even in those contexts where the patent has not gone through an opposition proceeding for situations where there is no new prior art presented, so as long as the litigant does not present
any new prior art, you are subject to a very - the
patentee still enjoys a fairly high presumption of
validity. So that is one way of tweaking the FTC’s
recommendations a little bit. But I am out of - oh, no,
I have one minute left, okay.

   So, that is my view of how the recommendations
with respect to presumption of validity, Non-obviousness,
and Opposition all cohere from an institutional
competence standpoint with the slight tweak that we may
not want to take the presumption of validity too far down
for your ordinary run-of-the-mill issued patent because
it may not have been subject to an opposition proceeding
because it just happened to be very good. Thank you.

   MS. SAMUELS:   Thank you. Lynn Pasahow is
going to give us some commentary.

   MR. PASAHOW:   Well, from a non-academic point
of view, but rather that of someone who litigates
patents, I was asked to give my impressions of this, and
these impressions come from trying software and biotech
and internet patents to judges and juries, but more from
going to focus groups that we often have before our jury
trials where we put on a mini trial and then watch the
jurors talk about these things behind one of my glass
mirrors. And my first reaction to the FTC proposal is
gratitude because, in my experience, the presumption of

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validity causes clients who are thinking of challenging patents not to do that or who are thinking of not taking licenses to take licenses. And I think doing away with the presumption is one of the few proposals that government agencies are making today that is going to have the impact of increasing litigation and I am surprised that one of our agencies is pursuing that goal. But my other reaction is mystification because the question in my mind is this – I think that the presumption, to the extent it does anything in litigation, and that is something I’ll come back to – but if it does anything, it limits the discretion of the jury, it puts the jury into a tighter box and controls them more. And so what we’re doing is we’re saying that the Patent and Trademark Office has some problems with its competence, and instead we are going to transfer the decision making more to the unbridled discretion of a bunch of jurors. Now, for these jurors, think of the places that are popular for patent cases and think about why. Today one of the most popular patent courts is the Eastern District of Texas, the town of Marshall, Texas, not a technology center. And without a lot of cynicism, I promise you, people go there to get the least educated jury panels possible. The question is not whether the jurors have modern science competence in whatever field
they are examining patents, they have none. The question
is not whether they are going to spend 25 hours studying
the art and the patent, they are going to sit there and
watch the lawyers do their show, and we have found in
almost every trial that we have looked at, and we have
looked at not only the ones we have done, but some that
other firms have tried, and in no case has any juror ever
read the patent front to back. No juror has read a patent
front to back. So what we are doing is we are taking the
PTO discretion and turning it over to these jurors in a
situation where they do not have the tools to do much.
Now, the Federal Circuit tells us that the decision
making by this jury is absolute, almost entirely. We are
not going to give them a clear and convincing standard
presumption, we are going to assume what they did was
right, unless there is absolutely no basis on which they
could have decided what they decided. That is the
standard on appeal. So once the jury comes back and says
"this patent is valid," the only issue is is there any
evidence from the disputed experts on which they could
have relied. And taking it one step further, the Federal
Circuit told us in the Bio-technology v. Genentech case
that it does not matter that two national academy members
have debated a highly esoteric, cutting edge issue with
science as to which experts disagree, and that the jury
could not possibly have made a reasoned decision. That
does not matter in the slightest. The experts put on
their testimony, the jury comes back with a verdict, and
that is the end of it. The Federal Circuit will then
accept that decision on the patent and that will be the
decision that determines the fate of the validity of that
patent. Given that that is the likely effect of doing
away with the presumption of validity in most cases, I am
perplexed. Now, of course others will point out, “Well,
judges try patent cases too.” And that is true. And
some judges study patent law, and some judges even have
scientific training. Perhaps more importantly, judges
have the time and the incentive, they can read the
patents, they can hire technical experts that are
independent court experts, so they can have the tools to
do this right. A couple of points about judges, though.
All judges are not as interested in patent law or as
knowledgeable about it as the judges that are going to
appear before you, who are going to appear before the
Federal Trade Commission hearings. There are judges out
there who actually hate to hear patent cases and try and
spend as little time on them as possible. But the second
and maybe more important issue is, under our system,
either side can demand a jury trial. And the problem
here is one that we, the trial bar, created. In the mid-
1980's we started trying some very complex technology cases to juries for the first time. Up until then, judge trials, in patent cases, at least, cases about real patents and real technologies dominated. But we started trying some of these cases to juries and what we found, of course, and we found it in these pre-trial focus groups, is that one side or the other in almost every case enjoys a huge bias to a jury. And because we now know that, we will test that somewhere along the way and that party in any significant case is probably going to demand a jury trial and stick to it. And, again, that jury may well be the jury in the Eastern District of Texas. It seems to me that the efforts for fixing the Patent System would be much better spent on trying to improve the PTO processes as the Commission also suggests, and if we do fix the PTO processes, I do not understand why we would not want the presumption to continue.

Now, finally, just on the question of does the instruction really matter, I have some question about that based on my experience. The lawyer’s argument about how patents come about and what we are permitted to tell the jury by the judge, in my experience, matters a whole lot more than what the judge tells the jury in a very short instruction what the presumption of validity might
be. So it would take a whole lot more than just changing
the instruction to have any impact. There is now a
videotape that was prepared by the Federal Judicial
Center that describes how the patent works. I know it
has been tested by different firms and I am not even sure
we are getting consistent results, but at least what we
have seen is that it strongly reinforces the presumption
of validity of the patent. It shows patent examiners
wearing suits and working on patents, and at least the
impression that mock jurors give us back is, “Yeah, it
looks like a good system. It causes us to believe
patents must be valid if they go through that system.”
It seems to me that if someone in the government wanted
to change the jury view of what patents are and what
impact that you have on their deliberations, one of the
first things to do would be to make that a more balanced
videotape. And then the other thing is, judges have a
lot of discretion in what kind of instruction they give.
Some judges give an instruction that tells the jury that
the facts have to be clear and convincing to show that
the patent is invalid, and you have to have a strong
belief in your mind that it is right, maybe a moral
certitude is a word that is in some of the ancient
instructions. Here in the Northern District of
California, most judges use a standard instruction that
the court has worked its way through which simply tells
jurors that, in order to find the patent valid, they have
to be convinced that it is highly improbable that it is
invalid. It seems to me that a patent that has gone
through a Patent and Trademark Office procedure and has
had someone, who is skilled in the science and knows
patent law, judge this as an invention which should be an
issued patent, ought to at least have that impact on the
juror. They ought to be convinced that it is highly
probable that the government made a mistake. And then,
to close, the really most compelling thing we find about
patent validity in our jury research before trials is a
lot of our citizens believe that when the Government does
something, it is probably right. This varies from
geography to geography. Here in the Northern District of
California, you can actually invalidate patents a whole
lot easier than most other places. The Eastern District
of Texas, not surprisingly given what I have told you, is
one of the places where the jurors almost never think the
government makes mistakes in its patent issues, and
another court, and maybe one of the most important ones
given all the trials there, is the District of Delaware
and there, as well, the jurors almost always validate
patents because they have this underlying glee in the
correctness of government action.
MS. SAMUELSON: So, Ed, did you want –

MR. REINES: Yeah, let me address this a little bit. First of all, Professor Janis referred to the fact that people have used the term “trolls” and other terms such as that regarding people in the Patent System. As someone who has litigated a defamation action based on the use of various and sundry terms such as that, I advise that the word “troll” is probably safer than “patent terrorist.” So if you are going to use terms like that, or your client is going to use terms like that, there is better and worse for defamation purposes, I have had the pleasure of learning. The comments I want to make, first of all, on the presumption of validity is it is important analytically to de-couple the presumption of validity from the standard of proof because they are two different things and they raise different issues. The Standard of proof, I think, in terms of jury decision-making is critical, it is the one thing the jurors grasp. Obviously, they will be swayed by a host of additional considerations, but when they hear preponderance vs. clear and convincing vs. reasonable doubt, those are things that they take seriously in my experience. And so it is one thing to change that. Now, there is a trend away from even informing the jury in terms of the judge of the fact of
the presumption of validity. I mean, the patent exists, so in that sense it is there, it is valid, so that is the start point. But it is important to appreciate from a litigation perspective that judges are increasingly declining to inform the jury that there is a presumption of validity. Judge Shrum did that in the Eastern District of California recently and in a relatively important case that came out just about a week and a half ago in the Chiron case, Judge Rader’s panel affirmed that decision not to give a jury instruction or presumption of validity over objection and appeal, and so now there is Federal Circuit - a perimeter on that, as well as model jury instructions in this district and others that do not have that. So if the jury never learns about the presumption of validity, at least from the judge, whether it exists or not, is less important because I think judges are used to the fact that presumptions are procedural vehicles, not substantive evidence, and they are capable of making the assessments of what weight should be given. So from a reform perspective, I think I am less concerned about the presumption of validity for those reasons, the trend away from even informing the jury of that as part of the instructions, and also the fact that judges are, I think, capable of handling that fact. Also from the reform perspective on the standard
of proof, which from my perspective is where the action is, I think reform efforts should focus on the differentiation between different issues. There is a tendency to focus on prior art as the main area, and that is quite an important area. The areas that at least trouble me, personally, on the standard of proof are areas where, as a practical matter, the Patent Office is not performing any examination. So all the issues that we are talking about about the quality of an examination, or discouragement of the PTO, or anything else, do not apply to things such as inventorship, typically. I mean, there can be disputes, but in general, the Applicant submits who the inventors are and that is it. I mean, if you have been through the ringer, you know that there is just not scrutiny on that. Best mode is another example. I have never in all the file histories I have looked at seen a Best Mode objection or, if I have, it has been in an anomalous case. So it is on those things where there is not really examination, certainly in any meaningful way, and yet there is an elevated clear and convincing standard. That seems to me to be wrong. When you move to prior art, it is a more complicated picture and I do not think they should be conflated. On the prior art, I think, there is one thing where there is a joined issue, an interference, a re-examine, or just a thorough
examiner doing the right job where it makes sense for it
to be a higher standard, and there are situations where
the prior art is never presented or, in the case of 102E
prior art, maybe did not exist at the time of the
examination, where the same level of proof should not be
required. So I would propose decoupling the two and
then, within the standard of proof issue, which to me is
the more important in terms of reform efforts, having
nuance to distinguishing the different elements. Thank
you.

MS. SAMUELSON: Great, thanks. Now we will
hear from Mark Lemley.

MR. LEMLEY: Okay, well, so let me start out
with presumption of validity and then actually broaden it
to some other issues that — there is a bunch of
litigation reforms in the FTC Report we have not talked
about yet. I think the FTC is exactly right on the
presumption of validity, and here is why. The problem is
that, for a variety of structural reasons, the PTO is
simply not set up to make anything like a very strong
determination one way or the other on the validity of a
patent to which we ought to give it substantial deference
in litigation. Why is that? Well, start with the fact
that the applicant never has a burden of proving
anything, right? The way the law is now interpreted, if
I decide to patent the wheel, my invention is that it shall be round, and the examiner does not come up with prior art – or it is the examiner’s burden to come up with prior art, if they don’t, I get the patent. Right? The presumption in the Patent Office is I get a patent. Then when we get out, the presumption is, “Well, that patent was examined by the PTO, and so it must be valid.” But there is never a point at which I have affirmatively to show anything. Second, the PTO is over-worked. They get 350,000 applications a year. They devote 17 or 18 hours total over the course of three years to your patent. That means reading your application, searching for prior art, reading the art that you submit, comparing it to the application, writing a rejection, reading the amendment and response you write to that objection, probably writing a second misnomer’d final rejection, dealing with a phone call in which you are persuaded by the applicant to change your mind and allow it, and writing the Notice of Allowance – all that, three years, 17 or 18 hours. Now, maybe they do a wonderful job under that time constraint, I am willing to concede that, I do not think the problem is examiners are stupid, right? But I think the problem is, given the time constraints we have and the cost constraints we have, that cannot possibly be a full and searching examination of the kind
that you will get in litigation. The problem is worse because the way we have structured the examiner’s incentive, you get rewarded only for the first office action and for finally disposing of the patent. You do not get rewarded more for disposing of a patent that cites 150 pieces of prior art and has 120 claims than a patent that cites two pieces of prior art and has three claims. As a result, those long complex patents, which are the very ones that turn out to get litigated at the end of the day, are likely to get less scrutiny per claim, less scrutiny per piece of prior art, because the examiner’s incentive is not to focus on the complex ones, the examiner’s incentive is to get as many applications out the door as possible. Right? Couple that with the fact that there is a very strong culture in the Patent Office that issuing patents, not denying patents, is the thing to do. When you look at the mission statement of the Patent Office, it is to help our customers get patents. That may be a very justifiable mission in lots of respects - patents are good things, but it is not something that inclines examiners to resolve the doubtful case by rejecting the patent application, and indeed they don’t. Once you take continuations into account - continuations are another problem - you cannot ever finally reject a determined patent applicant. No matter
how many times the examiner says, “No, I do not wish you to have this patent,” the applicant can always come back and ask again. You can wear down the examiner until the logical thing to do is issue the patent. And it turns out, as a result, when you take into account continuations, about 85 percent of all applications result in at least one patent at the end of the day.

Now, is this a flaw in the PTO? Maybe. I actually tend to think not. I think, instead, the PTO is doing what it is supposed to be doing, it is doing a quick once-over. Right? It is doing a light screen of this huge number of applications to weed some of them out, to narrow some of them in scope to prevent people from claiming too much, and then it is properly leaving to the litigation process the real hard determination, the devoting of tens of thousands of hours, to searching for prior art, to analyzing prior art, they are doing that validity. But we can’t leave that determination to the court, on the one hand, and then, on the other hand, say, “Oh, but because we have had 17 hours of scrutiny in the PTO, we must give deference to that scrutiny.” Now, Lynn says, “Wait a minute, if we do not allow – we do not give that deference – the result is going to be juries run amuck.”

Well, let me tell you a couple of things. First off, it is plaintiffs, it is patentees, not defendants, who are
going to Marshall, Texas, because they want the jury that
does not have the technical background. They are going
there because they know, and the empirical evidence bears
out, juries are more likely to favor the Patent Office
already, right? Because the jury says, “Wait a minute, I
do not know anything about atomic layer deposition. The
PTO has experts. They have already blessed this. I am
inclined not to second-guess those experts at the PTO.”
If we reinforce that already existing inclination by
telling them legally, “Let’s have a strong presumption
that what the PTO did is right,” the likelihood is we are
never going to get substantial numbers of jurors to take
a serious look as the litigation system wants them to
take a serious look at whether or not these patents are
actually valid. Lynn then says, “Well, the Federal
Circuit is going to defer too much to the jury.” That
is, I think, perhaps the first time I have heard anybody
say that the problem with the Federal Circuit is
excessive deference to what goes on in the District
Court. They are in huge panels discussing the opposite,
that the Federal Circuit intervenes too much. It seems
to me that litigation, as Joe Farrell points out, is an
imperfect system. But if anything, it is an imperfect
system already biased in the patentee’s favor. Why would
we want to give a better bias, a stronger bias to it? I
do not know. So I think that what the FTC recommends on this issue is exactly right. At a minimum, even if you think this is too radical, either too radical to be adopted or too radical to be good policy, then we ought to take what Ed says to heart, right? At a minimum, on issues in which the Patent Office has not engaged in examination at all, either it is an inventorship issue or it is prior art that was not cited before the Patent Office, it seems absurd to give deference, clear and convincing evidence deference, to the PTO’s determination because there was no determination. So the idea that it has got to be an across-the-board validity presumption seems even more silly than the standard as it currently exists.

Final point. We have not really talked at this conference about implementation, but it seems to me that the way this can be implemented is actually quite simple. If you go back and you read the statute, the statute says there is a presumption of validity. Of course, the statute also says in copyright cases and in trademark cases, there is a presumption of validity, and that presumption, as Ed points out, is decoupled from the standard of proof. In both of those cases, it is a presumption, but it is preponderance of the evidence. It does not take statutory reform to implement this
particular FTC proposal. All the Federal Circuit needs
to do is say, “Wait a minute, maybe it does not make
sense to be deferring quite as much as we already are.”
Alright, so much for presumption of validity.

A couple of much briefer notes on two other
reform issues, one which I suspect no one else at the
conference is going to talk about because it seems fairly
obscure and non-controversial, is the Section 105
relevancy statement, this was briefly mentioned this
morning. Todd Dickinson says – one of the things he did
is he got examiners the power to demand from applicants
that they explain the relevance of particular pieces of
prior art, and this seems to make sense from the
examiner’s perspective if you are inundated with large
amounts of prior art. What I want to know is, what do I
need to read. Right? Given my time limitations, what is
it that is important to me? But I will tell you as a
litigating, if you start as a practical matter requiring
relevant statements in Section 105, I guarantee you that
in every case I defend, I will get past summary judgment
with an inequitable conduct defense. If you make
somebody write down, “Here is what is important in this
prior art reference,” there will always be something that
they left out, there will always be something that you
can say, “Oh, they said it wrong, they misstated it,”
right? There will be a litigation bonanza for defendants. The only thing you can do if you are a prosecutor in response to that is over-disclose. “Here is each piece of prior art, you need a relevant statement for each piece of prior art. I am going to tell you everything is relevant. Here is why this paragraph is relevant, here is why this paragraph is relevant, here is why this paragraph is relevant.” PTO’s burden actually may end up being higher, not lower. So I think it is a good idea in the abstract, and if we focus only on the PTO, it makes perfect sense. I fear a little bit, though, the litigation consequences of doing that.

Alright, final point. The FTC suggests that we need to change the trigger of willfulness. Right now, I can be a willful infringer merely because I run across a patent. My engineer reads a patent, they are aware of the patent, they are doing something which we later determine infringes that patent, they are a willful infringer at least unless we start playing a rather remarkable game in which I go get an opinion letter of counsel that says, “Oh, no, it is okay to continue doing this.” I agree to disclose that opinion letter of counsel in litigation, I therefore waive the attorney-client privilege – how far, no one seems to know, there are no less than eight different legal rules in District
Courts on how much the waiver extends, right? If I play this game, I am in serious trouble, and so a bunch of lawyers tell their clients, “Whatever you do, don’t read patents, because if you read patents you get us stuck in this really sort of labyrinth and quite disturbing process.” So what the FTC suggests, which it seems to me is exactly right, as a starting matter, is we ought not say that merely because an engineer read a patent, the company is willfully infringing that patent. Right? We ought to have a higher trigger. I think that is a good idea, I think it is a necessary reform, but I do not think it is a sufficient reform. There are substantially greater problems with the willfulness game. I am still, whenever I get a letter, going to have to get my opinion of counsel, disclose my opinion of counsel, waive the attorney-client privilege, it distorts litigation advice, it distorts pre-litigation advice, it distorts your choice of counsel because you want your opinion counsel to be different than your litigation counsel, and so there are substantial problems with the willfulness game that are not addressed here, but at least the FTC’s report is a first step. Well, Mark Janis and Arti Rai both said they would talk quickly, and I think what they meant is that they would talk briefly. I actually did talk quickly, but I am done.
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MS. SAMUELSON: Following up on the issue of subjective factors, Jim Pooley, I think, wants to say a few things.

MR. POOLEY: Thank you. Mark is always a hard act to follow and all I can promise is I won’t say as many words. You know, first, on a point of personal privilege, because the issue of the video from the FJC came up –

MR. LEMLEY [presumed]: The Pooley Video.

MR. POOLEY: No. But I did write the script for that, and all I can say - I have since retired from that business and am now practicing law - all I can say is, you know, we received as many comments in the other direction of what Lynn brought up, and I take that as a signal that we probably did what we were supposed to. In fact, people on the other side of that debate complained about the narrator’s comment that, you know, you may be wondering why you are here being asked to decide these validity questions. Well, in part, it is because mistakes sometimes are made, and while that is being said, you know, we cut to a scene of the over-worked patent examiner in her office with a stack of files this tall on her desk. And then that scene at the end where somebody pushes the cart through the file room when it looks like the final scene in Radars of the Lost Ark.
You know, we do try to get both sides in there. But, moving on to the issue at hand, I had the privilege for the last several years of working with my colleagues on the Committee of the National Academy project, and the basic thing that we were looking at when you boil it all down, with the benefit of a lot of academic interest and perspective, was why do we hear so much noise and concern about the Patent System? Where is the sand being thrown into the gears of the machine? And in large part, we found that it was in the enforcement system. And here I have to say I agree very much with Bob Blackburn on this point, you know, when you talk to our clients, the people who deal with this system, they will tell you the reason that they end up being so irritated about having to pay out large amounts of money for something that is not perceived by them to be of very much value intrinsically is because they are petrified of the uncertainty, the unpredictability of the outcome of the process, as well as its costs. So when it gets down to enforcement, we find, I think, some of the greatest impact of the choices that we make in designing the system on how it actually is implemented. And, in part, looking at the enforcement system, we run into the issues that Lynn mentioned about using juries for this process of considering validity questions and, of course, people from outside our
judicial system look at that as something sort of comically quaint until, of course, they are in front of a jury trying to argue invalidity against the presumption. Not being able to modify the Seventh Amendment, apart from perhaps suggesting a third way in the post-grant opposition process, one of the things we looked at and one of the areas of recommendations that you will see is, is this phase of litigation in which we deal with subject elements of the parties. And one of them, Mark just mentioned and that is the subjective - the state of mind of the alleged infringer, and it plays out in willfulness. And here again we find in looking at the question balancing the purpose of willfulness, which is supposed to provide some additional deterrents against infringement, in a way very very large transactional costs that involve getting opinions that may be worthless for any other purpose whatsoever, and give people a real cynical view of the system itself, the cost of litigating the problems around the scope of the waiver of the privilege, and for the clients who face this from the outset seeing their exposure tripled, potentially, against a standard that they really can’t understand. And so it is no surprise, then, that you see companies instructing their engineers, “Do not read patents.” And so when we are looking at cost-benefit analysis here of
that incremental benefit that we get in deterring infringement, we have to consider is it worth provoking a result that is 180 degrees from the constitutional mandate of using patents in order to inform the progress of science and the public knowledge. So willfulness is sort of an easy target in the panoply of subjective factors that we have to deal with in litigation. There were two others that you will see in the report that have to do with the state of mind of the patentee, one has already been referred to as "Best Mode," and although it does not come up that often, when it does it is a real side show – and an expensive one in terms of discovery, and one wonders what it actually gives us in terms of benefit over and above the other provisions of Section 112 in motivating the parties to do a good job in describing their invention. We also, in that particular instance, run up against a substantial irritant and problem where international harmonization is concerned because, as in the area of First to File vs. First to Invent, we are the only jurisdiction in the world that employs Best Mode. And those who try outside of our country to harmonize their efforts with our system find this to be a very very puzzling difference.

The last one of these is inequitable conduct, also referred to – I think Mark said if Section 105 were...
really used very much, he would be able in cases where it
was invoked successfully at the Patent Office to be able,
in every one of those cases, to establish an inequitable
conduct claim that would get past summary judgment, which
is a little bit of an example of why this particular
subjective element, although it is perhaps alleged less
frequently these days and perhaps less of a practical
problem because it is decided by judges rather than
juries, nevertheless appears to be more of an
inefficiency in the system, or cost in the system, than
is justified. The additional burden on discovery, the
additional burden on the plaintiff from having to
consider whether it is counsel who might be participating
as trial counsel, can actually take part in the
litigation and trial of the case – all of those
inefficiencies have to be weighed against what is
probably a very very statistically improbable incremental
assistance that you get in making the system work, from
having this aspect available to the parties to litigating
their cases. So one of the things that you will see in
the report is that we have suggested that these elements
which deal with state of mind either be eliminated or be
substantially mitigated in a way that reduces their
impact on the unpredictability and the cost of litigating
disputes and patents.
MR. REINES: Could I pitch just one minute on that? Just on willfulness, one thing to keep in mind is that in Federal Circuit right now is the Knorr-Bremsey case, which looks to be the palette from which they can re-write willfulness law altogether. I know Congress right now is deliberating based on what I have heard from committees on some willfulness reform, and the FTC obviously is wading into those waters as well. I would just suggest that all of those efforts wait to see the outcome of the Knorr case so that we can see what the Federal Circuit has done to cure that area, be clear what the law is in terms of getting some stable foundations from the Knorr case, and against that background can determine what, if any, reform is appropriate. Thank you, Pam.

MS. SAMUELSON: Great. Would any of the other panelists like to do commentary? Shall I open it up?

MR. LEMLEY: Let me just – Jim maybe hobbled in this respect on how much he can say. I was quite interested to hear that one of the recommendations was, as I understand it, either eliminate or put substantial constraints on the inequitable conduct defense. Maybe understanding more about what the NAS proposal actually is would help in this respect. I guess I am a little nervous about the effects of a rule that said there is no
inequitable conduct defense – not because I think the inequitable conduct is rampant today and, indeed, you know, there are lots of frivolous claims of inequitable conduct asserted, but because I fear what would happen if we sent a message that there was no punishment for lying or failing to disclose evidence to the Patent Office. And I wonder whether you guys have thought about that and what you might say about that.

MR. POOLEY: Well, no, indeed that issue is reflected in the report because it was a big part of our deliberations in every one of these cases, I think. We looked at what is the real objective, what is the goal of the particular element, and how central -- important is it. Can you get there by using other methods than this one, and what is the cost? So that analysis is in the report. And I do feel a little bit constrained about talking about the details of exactly what we have recommended because the thing was not here in time.

MS. SAMUELSON: So something to look forward to for Monday. Questions, comments? Yes, in the back.

MR.: [Audience -- off mike]

MS. SAMUELSON: Could you restate the question?

MR. PASAHOW: The question is does the presumption of validity affect the ability to get a
summary judgment in litigation. And for those of you who are not lawyers, summary judgment is a motion you make before trial and it is decided just upon written submissions of whatever the relevant evidence is. And technically, I think the answer is it shouldn’t because the question for the summary judgment is, “is there any evidence on the other side?” And if there is any evidence, you are supposed to deny the summary judgment. It should not matter whether ultimately the question is, is that evidence going to be sufficient and meet a mere preponderance or a clear and convincing standard? In putting aside that theoretical issue, in my experience, I have not seen trial judges get held up on the issue of whether it is clear and convincing or preponderance for summary judgments. On the other hand, there is the aura that this presumption puts around patents that I think sometimes does impact judges, at least subjectively. In making that whole aura go away, it might impact things like summary judgment more than we can guess.

MS. SAMUELSON: Any other panelists want to – okay, in the back.

MR.: [Audience -- off mike]

MS. RAI: I can speak to that since I spent a lot of time –

MS. SAMUELSON: Could you repeat the question?
MS. RAI: Oh, sure. I take it that the burden of the question was, isn’t it interesting that the Federal Circuit, at least with respect to some of its judges, has been trending towards a plain meaning, version, of claim construction so that there is not nearly as much need to look to the PHOSITA, for example, or to factual issues more generally. I think that this is part of the— I mean, I could speak at great length about why I think this is part of the Federal Circuit’s desire because it feels like it is the most competent actor in the system to try to really control all aspects of the system, and it is not a crazy position to take for the Federal Circuit to believe that it is the most competent actor in the system, but I do think that that means that the PTO gets ignored to some extent. Now, the only way in which it does not get ignored, as I have indicated, is in the context of patent issuances and the clear and convincing evidence standard gives more deference to the PTO than perhaps was given by the predecessors to the Federal Circuit. But with that small exception, it seems to me that that is a sort of indication of the Federal Circuit’s wanting to kind of root out factual issues altogether so as to have more control over the system.

MR. JANIS: I was just going to say I think
the question raises an interesting point about linkages
between the presumption of validity and other issues, so,
for example, I wonder suppose we did change the
presumption of validity, making it apparently easier to
invalidate patents? Would we get an equal and opposite
reaction in scope doctrines? You know, we start
construing claims to preserve their validity, really. We
see other changes at the Federal Circuit that liberalize
scope doctrines going back the opposite direction where
they have been trending. So what would happen? Who
knows? But I do think it is important to see a change to
the presumption of validity might well cause a cascade in
changes in other areas, we should not look at it in
isolation, I don’t think.

MR. LEMLEY: Going back to Mark, one of the
things that has always struck me as remarkable about
prosecution practice distinct from litigation practice is
exactly how little claim construction seems to matter in
the prosecution process. Right? I mean, we get to court
and we fight over the meaning of words that you would not
possibly think could have a disputed meaning, right? I
mean, there are Federal Circuit decisions interpreting
the terms “A” and “Or” and “To” and “When.” But none of
that seems really to happen in prosecution, right? And
maybe it is just a function again of the time constraints
and how detailed the analysis is, but we seem to sort of
skate through prosecution without substantial discussion
about what the terms mean, and so there is a bit of a
tabula rasa, right? The Federal Circuit’s later change
in how we will interpret those terms may not affect
prosecution as much because it is just not being thought
about as much in prosecution.

MS. RAI: Well, there is an obvious reason it
is not thought about as much in prosecution. You think
about those terms like “on” and “in” and all that only
when you are confronted with an infringer who says that
“on” and “in” and what have you do not take the infringer
outside the scope of your claim, so –

MR. LEMLEY: You see it for validity too,
although it is often an infringement driven doctrine.

MR. REINES: Just a couple comments. One is I
think there is just a practical problem if you are going
to attempt to run some sort of concordance between the
law at the time of prosecution vs. at the time of
enforcement, or District Court litigation. I mean, there
are all kinds of areas in law that change all the time in
radical ways, and so I think we have to be somewhat
humble about our ability to bring that into sync, on the
one hand. On the other hand, I think the point was
addressed, actually, by Professor Lemley’s comment that,
really, if you think about examination it is sort of a reasonably good once-over pass, and that that is not going to get into the level of going through the dictionary library and then to experts and what they understand this to mean. So I think that is addressed in the sense that we have to recognize that there is not full blown claim construction of the style of Texas Digital or anything else taking place during prosecution, in general. I think the way that the Patent Office attempts to address this, and others can address this in more detail, is through assuming the broadest general meaning of the claims, and maybe that rule needs to be given more vitality in order to address the practical reality that the Patent Office is not going to perform a full blown claim construction on every word in a 100 claim application.

MS. SAMUELSON:  Yes?

MS.:  [Audience -- off mike]

MR. PASAHOW:  Well, that is a good point, but

MS. SAMUELSON:  Could you repeat the –

MR. PASAHOW:  The point was that if courts gave deference to opposition proceeding statements about claim construction, that would eliminate some uncertainty – well, a lot of the uncertainty. It is a good point,
but often as you are talking about the validity of a patent, the issue of claim construction is less intense because everyone who is challenging the patent, and the examiner under the governing rules who is looking at it, simply assumes that the words have their broadest meaning or the broadest meaning they could have to one skilled in the art. Often the examiner is that person, too. So the issue does not come up as to every word in the claim that is going to get litigated about when you start comparing it to a product. And whoever’s product it is is trying to find some word that arguably doesn’t apply.

MR. LEMLEY: It also may depend a little bit on the structure of your opposition proceeding, right? Is this a proceeding in which we are going to have Administrative Patent Judges write opinions giving the reason for rejecting a challenge, in which case they may be explaining why they think that the patent has a particular scope, and therefore avoids the prior art? Or are we going to fall back, in essence, on a Prosecution History Part II approach in which my representations in front of the Administrative Patent Judge may be binding or helpful in interpreting the meaning of the claim because I made them?

MS. SAMUELSON: Ron?

MR.: [Audience -- off mike]
MS. RAI: Although presumably, even if we were going to give full deference to whatever the opposition proceeding yielded with respect to constructions in particular context, if there was nothing said about other words, there would be no reason to give - there would be nothing to give deference to, just as there is nothing to give deference to with respect to the PTO’s failure to examine particular issues like Best Mode, or what have you. So I am not sure it ends up being such a big issue because -

MR. [Audience -- off mike]

MS. RAI: Well, that is what I mean. And then those would have to be - I would assume that that would just be litigated de novo because there - well, probably to some extent de novo, anyway, because there would be no prior opposition proceeding holding on that question.

MR. LEMLEY: Well remember, of course, Markman is a question of law and under Cybor there is no deference even to District Court determinations of what a term means, so the likelihood that there will be deference to the Patent Office Administrative determination of what a claim means seems dubious to me, so only if you actually appealed the opposition to a Federal Circuit would you get a defined meaning of the claim term.
MS. RAI: Well, FTC recommends that, as a part of the opposition proceeding legislation, Congress mandate deference on questions of law –

MR. LEMLEY: Of – yeah.

MS. RAI: – even, yeah. So.

MS. SAMUELSON: Well, on that cheerful note, it is time for lunch. It is my understanding that lunch will be served in the back of the room and we will reconvene at 1:40 in order to hear Judge Whyte, but you have almost an hour to enjoy yourselves.
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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I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation and format.

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