FRANKLIN PIERCE LAW CENTER'S EIGHTH INTELLECTUAL PROPERTY SYSTEM MAJOR ISSUES CONFERENCE

I. INTRODUCTION 1
A. *Conference Background* 1
B. *Conference Design* 2
II. PARTICIPANTS 3
III. INTRODUCTION TO TRANSCRIPT 6
IV. REFORM OF CONTINUATION PRACTICE 9
V. REFORM OF PRIOR ART DEFINITION 42
VI. REFORM OF PATENT REMEDIES 64
VII. INDEX OF TERMS AND CASES 88

I. INTRODUCTION

A. Conference Background

On April 1, 2006, Franklin Pierce Law Center (Pierce Law), in cooperation with the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship, headquartered at Pierce Law, held its Eighth Intellectual Property System Major Issues Conference. The eighth conference continues a tradition of scholarship and discussion begun in 1987 by former Pierce Law professor Homer O. Blair.

The discussions in Professor Blair's inaugural major issues conference focused on such varied topics as new forms of patents, litigation cost reduction measures, and first-to-file versus first-to-invent systems.[1]

The 1989 conference was devoted primarily to patent trial simplification and dispute resolution.[2]

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1 *Franklin Pierce Law Center's First Biennial Patent System Major Problems Conference*, 28 IDEA 61 (1987); 28 IDEA 117 (1987).

2 *Franklin Pierce Law Center's Second Biennial Patent System Major Problems Conference*, 30 IDEA 107 (1989).

The 1991 conference took up the issues of patent-law harmonization, with a particular focus on secret prior art, prior user rights, 35 U.S.C. § 104, and publication of pending applications.[3]

The principal topics for the 1993 conference included abolition of jury trials in patent cases, a new specialized patent court in England, prior user rights, and the U.S. Patent and Trademark Office as an independent government corporation.[4]

The 1995 conference covered patent costs, the future of the U.S. Patent and Trademark Office, and prior user rights.[5]

The 1997 conference discussed medical procedure patents, software protection, and the Doctrine of Equivalents. It featured remarks by the Deputy Assistant Commissioner of Patents.[6]

The theme of the 1998 conference was "Digital Technology and Copyright: A Threat or a Promise?" and the following five topics were under consideration: the capabilities of digital technology, the implementation of technological protection, technological protection and public policy, digital technology and copyright liability, and alternatives to technological protection.[7]

B. Conference Design

As in previous years, the 2006 conference was designed to bring together a significant number of invited scholars, industry representatives, practicing attorneys, and government officials for a roundtable discussion. The conference was designed to encourage in-depth discussion and exchanges among the attendees, without formal, prepared presentations other than the prefatory comments offered by Professors Craig Jepson and Tom Field to introduce the topics.

The conference was organized by Professor Karl Jorda, Director of the Germeshausen Center and Carol Ruh, Assistant to Karl Jorda and was chaired by Ron Myrick, Chair of Pierce Law's Advisory Council for Intellectual Prop-

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3 *Franklin Pierce Law Center's Third Biennial Patent System Major Problems Conference*, 32 IDEA 7 (1991).

4 *Franklin Pierce Law Center's Fourth Biennial Patent System Major Problems Conference*, 34 IDEA 67 (1994).

5 *Franklin Pierce Law Center's Fifth Biennial Patent System Major Problems Conference*, 36 IDEA 345 (1996).

6 *Franklin Pierce Law Center's Sixth Biennial Patent System Major Problems Conference*, 37 IDEA 623 (1997).

7 *Franklin Pierce Law Center's Seventh Biennial Intellectual Property System Major Problems Conference*, 39 IDEA 291 (1999).

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III. INTRODUCTION TO TRANSCRIPT

MR. HUTSON:

I'm John Hutson, the Dean and President of Franklin Pierce Law Center. I appreciate all of you taking time out of what I know are busy schedules for all of you to do this. This is a revitalization of a program that Franklin Pierce Law Center had sponsored for a number of years which is, so far as I know, completely unique. We're delighted to get started with it again, particularly with a group of people quite so distinguished as all of you are. This ought to be a lot of fun. I encourage you to try to overcome your natural shyness and reticence to speak up. I know that's going to be difficult for some of you but please don't keep your good ideas to yourselves as we go through the day.

What we say and do here will be published in a special issue of IDEA®: *The Intellectual Property Law Review* in a manner which is timely and hopefully will have an impact on decision makers regarding these subjects.

I need to particularly thank our Chair, Ron Myrick and Karl Jorda for their tireless work in pulling all of this together. Without them it simply wouldn't have happened. I would also like to thank Bill Hennessy, the Chair of the IP faculty at Franklin Pierce Law Center and Tom Field and Craig Jepson, professors who have worked very hard to help lead our discussions during the course of the day. A list of thanks would be woefully incomplete without mentioning Bob Rines. Without Bob, Franklin Pierce Law Center wouldn't exist. We wouldn't have done this over the years and I suppose all of your Saturdays would be free on this lovely spring day. So special thanks to you Bob for everything that you've done. With that, let me turn it over to our Chair, Ron Myrick.

CHAIR:

Thank you, Dean. Well, I'm delighted again to say my welcome to all of you. This is a renewal of an old tradition and one that was very effective in the past on major issues, and I think will be equally effective today. I'm hoping that it pours rain, terribly, all throughout the day as it's supposed to do so that while you're here, at least you won't regret being indoors.

May I begin by saying that I'd like to have all of you introduce yourselves to all the rest of us and for the record because this is being recorded. From time to time, as you make your comments, be sure to introduce yourself with your own name at the beginning of your comments so that it can be recorded properly. If you don't, please forgive me because I will remind you so that we make sure we have the record complete. With that, I would like to begin with Craig Jepson. Please announce your name, your affiliation business wise, and if you're here representing an organization such as a bar association or such, please also indicate that.

MR. JEPSON:

My name is Craig Steven Jepson, Professor of Law, Franklin Pierce Law Center. I am Of Counsel, Devine Millimet & Branch, Manchester, New Hampshire. I summer as Scholar in Residence with Andrews Kurth LLP of Austin, Texas, and I wrote the two memoranda on the proposed changes from the PTO and the § 103 changes that were in the bill that was before Congress.

MS. RICHEY:

Susan Richey, Professor of Law, Franklin Pierce Law Center.

MR. HAWLEY:

Jeff Hawley, Eastman Kodak Company, formerly president of IPO.

MR. HENNESSEY:

I'm Bill Hennessey. I'm the Chair of the Intellectual Property Faculty and a Professor of Law at Franklin Pierce, and I direct the Intellectual Property Institute at Tsinghua University in Beijing, China.

MR. BARDEHLE:

My name is Heinz Bardehle. I am a patent attorney in Munich. Before that, I was in industry for 20 years. I normally join the German delegation in negotiations about further patent harmonizations throughout the world, which was stopped at WIPO because of some obstruction of the developing countries. These negotiations are going on in a limited group, the so-called Alexandria Group. It was founded in Alexandria, VA on the invitation of your Director General of the U.S. Patent Office. The last meeting was on Monday and Tuesday this week in Tokyo. We made good progress for future harmonization. Thank you.

MR. CAVICCHI:

John Cavicchi, Intellectual Property Librarian at the Franklin Pierce Law Center.

MR. FIGG:

Tony Figg. I am in private practice in Washington with Rothwell, Figg, Ernst & Manbeck, and I'm currently the Chair of the Section of Intellectual Property Law of the ABA.

MR. GARNER:

Mel Garner. I'm with Darby & Darby. I'm currently the president of the AIPLA.

MS. HOGLE:

Doreen Hogle from Hamilton, Brook, Smith & Reynolds in Concord, Massachusetts, and I just ended my term as President of the Boston Patent Law Association.

MR. JOHNSON:

Phil Johnson of Johnson & Johnson. Just to answer the three questions that I'm sure are on your mind: no, I have not started a law firm with my daughter; yes, I am a member of the Johnson family; but no, it's not *that* Johnson family.

MR. KAPPOS:

I'm Dave Kappos from IBM.

MR. PEGRAM:

John Pegram from Fish & Richardson in New York.

MR. RINES:

Bob Rines, *emeritus*, Franklin Pierce Law Center. I still am a dinosaur teaching patents at MIT.

MR. POPE:

Larry Pope. I'm with Mayer, Brown, Rowe & Maw in Chicago, and I was previously, for 15 years, with Abbott Laboratories.

MR. SIMON:

David Simon with Intel.

MR. WALTON:

Ken Walton with Merck & Co.

MR. WAMSLEY:

I'm Herb Wamsley, Executive Director of Intellectual Property Owners Association, IPO.

MR. WILLIAMSON:

John Williamson formerly chief patent counsel for PPG Industries and Westinghouse and also former IPO president. Now with the law firm of Kirkpatrick and Lockhart Nicholson Graham in Pittsburgh.

MR. KIRK:

Mike Kirk. I'm the Executive Director of AIPLA.

MS. TEMPLE:

Shelly Temple, adjunct professor at the Franklin Pierce Law Center. Attorney at Devine, Millimet & Branch in Manchester, New Hampshire, and I am vice chair of the IP section of the New Hampshire Bar Association.

MR. JORDA:

Karl Jorda. David Rines Professor of Intellectual Property Law at Franklin Pierce and the Director of the Germeshausen Center for the Law of Innovation and Entrepreneurship.

CHAIR:

I'd like to take the opportunity to welcome our—

MR. HAWLEY:

Ron? Who are you?

CHAIR:

I'm Ron Myrick, presently with Finnegan Henderson. I am formerly of General Electric, another past president of IPO, and currently vice president of AIPPI.

IV. REFORM OF CONTINUATION PRACTICE

CHAIR:

What I'd like to do is suggest that we begin by having the opening remarks from Craig Jepson in regard to our first issue of the day, and that's the new rules for continuation practice and so forth. I must say that we had a session Charlie Van Horn conducted in Boston, actually in Cambridge, a couple of days ago on this issue. The audience was overflowing in the room, and they were all amazed. I'll let you hear from Professor Jepson as to why they were amazed.

MR. JEPSON:

The United States Patent and Trademark Office has a backlog of almost one million applications, and that number is growing over time. There are annually in excess of 390,000 applications filed. The PTO never got over the bump in applications that came from the dot.com boom, the growth of biotechnology and nanotechnology, as well as the patentability of software and business methods. The delta between the number of applications that are being filed and the applications that are being disposed of is therefore growing dramatically. The PTO believes that it cannot hire its way out of this problem and as a consequence is looking for alternative solutions.

The "solution"—we'll just consider the word solution to be in quotes whenever I use it. The "solution" that's being proposed is, among other things, a limitation on continuation applications; requests for reexamination of applications; and divisional applications; that in effect amounts to allowing only one continuation. One continuation will be as of right, and thereafter continuations will be allowed only upon a showing of good cause and reason why the proposed amendments or arguments could not have been made beforehand.

There also will be a limit on CIP applications. The applicant will be required to designate which claims are dependent upon the newly filed material, as opposed to those that may find support in the original or earlier filed material.

There is also a proposal that only ten claims will be examined initially. These will be called the ten representative claims. The representative claims would be all the independent claims up to ten, plus any dependent claims that the applicant wishes to designate. The PTO will decide if a claim that the applicant has designated dependent is in fact an independent claim. For example, a dependent claim that refers to another claim but doesn't incorporate all of its limitations; or a product by process claim will be considered an independent claim. Those that the PTO decides are actually independent claims will be considered as part of the ten. If an applicant wishes to have more than ten claims examined, or if during the course of prosecution more than ten claims become independent, then the applicant is required to file an examination support document ("ESD"). This would be a—well, we don't know exactly what it would be—but it's something between an opinion letter and a detailed IDS explaining how the claims that are submitted are patentable over the prior art and including a sworn statement that the applicant has made a specified patentability search, the requirements of which the PTO will provide; and that the search is compliant with those requirements so that the examiner has a document that he can use in place of, or in aid of, doing a search and examination himself.

If an applicant tries to get around the ten claim requirement—the ten representative claims—by filing multiple applications, and if those applications have overlapping subject matter, a common inventor, and are filed within a month of each other, then the PTO will consider those to be double patenting per se until the applicant shows otherwise. The PTO may consolidate those multiple applications into one. There will be no right of division in the applicant, although the PTO may continue to divide applications. I think that's the main focus.

I attended a PTO Town Hall Meeting regarding the proposed rule changes and we had at a Student Intellectual Property Law Association event here at Pierce Law with Solicitor John Whealan; so I got two opportunities to speak with PTO personnel about these proposals. They, the PTO, purport to have done a study or a simulation, a computer simulation that supports their

hope that these changes will make a meaningful dent in the backlog and in the dependency rates. As you may know, John Doll [Commissioner of Patents] did a PowerPoint presentation wherein he showed that in some art units, for example interactive video, the pendency rate is 50 months. The overall average pendency rate is over 18 months. Even the shortest pendency is eight and a half months. These don't look to be getting any shorter. The PTO purports that their study shows that these proposed changes are going to have an effect on both the backlog and the pendency rate. That particular study has not been disclosed, as far as I know. I suspect that of course if it was disclosed, it would be unfairly picked at by prosecuting attorneys, and therefore there's no reason to allow that to happen.

Anyway, at the PTO Town Hall Meetings, there was little support from very large and active crowds of mostly patent practitioners. Most were strongly opposed to these proposals. But my impression from the PTO personnel and from John Whealan is that the PTO is going to do this regardless. My feeling, therefore, is unless we have some alternatives to propose in a way that is so convincing that we can steer this train to another track, we are getting these changes and will have to therefore fight them afterwards.

Are there any questions for me before we begin generally? I know Phil Johnson is highly in favor of these changes. He told me so himself (laughter).

CHAIR:

Thank you, Craig. I appreciate your opening remarks, and I think the floor is now open for comments. The approach we can take to this is we can perhaps have those who would speak in favor of what's been said or in favor of what's been proposed and then perhaps have someone speak of a different ilk. I think piling on in one direction or the other is not particularly as advantageous as having some alternating discussion. So with that, let me throw the floor open for comments. John?

MR. PEGRAM:

I would like to outline some aspects of the specter that I see with restricting continuations. This proposal, in my view, is a sledge hammer to swat a fly on a window. There's going to be a lot of breakage. The one specter that I see is considerable litigation. You may remember the *Donaldson*[8] case in which the Patent Office had not been in compliance with § 112 ¶6 in its examination. One of the excuses it gave to the *en banc* Federal Circuit was, we've been doing this for years. The Federal Circuit said, you may have been, but the whistle has been blown and you've got to stop.

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8 *In re* Donaldson, 16 F.3d 1189 (Fed. Cir. 1994).

As I read the law, there is a statutory right to continue applications. Unless there is some statutory amendment, and I have heard from some people that the Patent Office may seek a statutory amendment, and unless that is properly handled, I raise the specter of not only litigation, but of all kinds of questions persisting for years until the courts do resolve some of the issues raised by these proposed rules.

Secondly, the supposed rework is not a real situation. The situation is aptly outlined in the paper from a website that is in our materials about the examiner's counts. What motivates the examiners is very important here. The examiner gets a count if they come up with a situation and say I'm not going to decide this, I'm going to finally reject this application. You turn around and you pay your fee for the right to continue prosecution. Many, many of the continuing applications are due to that procedure and the economic aspect of the way the Patent Office is operated.

I foresee that the volume of petitions to file continuations beyond the first continuation will be far more than the Patent Office estimates and will be far more difficult to handle. In talking to people now and previously, in responsible positions in the Patent Office, one of the significant problems is the shortage today of supervisors. I have been told that instead of an optimum number of eight or nine examiners under one supervisor, there are as many as 25, frequently in the critical art units that have backlogs. The cure that I've heard from many practitioners is they're going to file a lot more applications before this rule becomes effective. So, I think it's going to be counterproductive. The root problems will continue to grow, and this problem which even the Office, if they are entirely correct, says is three percent of the cases. So, I think that they are wasting their time and don't know what they're doing.

CHAIR:

I would take your comments as being against.

MR. PEGRAM:

When I introduced myself, by the way, you'll note that I did not say that I'm associated with any organization. I am here as devil's advocate.

CHAIR:

Very well. I'll leave that line alone too. May we have someone to speak in favor?

MR. POPE:

I would like to make a procedural comment not in favor or not against particularly on the merits. I have my own thoughts about that too, and I'll be happy to share them. But I think the thing that strikes me about these proposals is that they create a major change in the way that patent law is practiced in front

of the Patent Office, and I don't think anybody has disputed that, including the legal staff, Jim Toupin and John Whealan at the Patent Office. You've got a major change in practice on the horizon, and yet there are no public hearings scheduled. I think that's a major lack. Now, there's an informal procedure going on where they're going through all of these town halls and meeting with lots of folks and talking about these rules, but I think formal hearings should be held where an official transcript is created, and there's an official record of people's reactions and concerns with regard to these rule changes. It's my understanding that the Patent Office, or at least some people in the Patent Office, will consider actually having hearings, and I think beyond comments and concerns about the substance of the rules; I think that's something that we should all be pressing for. I know I raised this at the AIPLA Mid-Winter Meeting, and John Doll said that that's definitely something that they are considering.

So as opposed to the idea that they're going to ram these rules through, which may well be the case, in terms of whether or not they're going to hold public hearings—that seems to be a very open possibility, and I try to urge everyone to pursue that concept if it makes sense to them. I think it just makes clear sense when you do this major a change and with these major concerns, that there should be public hearings with testimony and a transcript.

CHAIR:

A very able comment. Thank you Larry. Does anyone want to speak in favor? Bob?

MR. RINES:

Bob Rines. I think the uniqueness of this conference and its predecessors is that we are challenged with trying to come up with proposals, solutions or suggestions for outstanding problems. I don't know whether continuations are or are not a real problem. But assuming for the moment that they are, somebody has got to give. It will do us no good, in my view, to berate attempts by the Patent Office to expedite and limit by stonewalling, and saying we want it just the way it was. I would think the constructive thing, particularly for this group, is to try to come up with, maybe not today, but at least to begin to think about, how do we get the Patent Office out of this hole? Now I'm not convinced, as John has indicated, that continuations are the problem. What do you do with a backlog of a million cases? I don't think we can look anywhere in the world to a solution. They're worse in some particulars than we are. So, I would like to say on my own behalf, on Tuesday we're going to argue *Figueroa v. United States*.[9] We think unconstitutionally using patent clause funds for other

[9] 66 Fed. Cl. 488, 75 U.S.P.Q.2d 1462 (Fed. Cl. 2005).

purposes helped put the Patent Office in this hole. But let's face it, that isn't the only thing that's put the Patent Office in this hole.

So, while I think it's nice to talk about limitations on continuations, I think we ought to be prepared to make some sacrifice here. I still have a small practice, and I know I can do better. I know that I can reduce the number of continuations that are dictated by practice, by pressures, and things of that sort. On the other hand, I would like to point out that the practice of the examiners in some of my cases, at any rate, of paying no attention to an amendment after the first rejection and putting you immediately into final rejection. Even if you do what you understand they say you should do in the final rejection, they refuse to consider it, and they say it will require a new search or some other cockamamie excuse, and force you to appeal on a record that isn't ready for appeal. But I can do better, and I think you can do better. So, I would hope that as we debate these particular issues, we'll be mindful that we've got to come up with something to help the Patent Office. I say if continuations are such a bogeyman, and I just don't believe it, but if they are, I think we've got to see what we can do to not exacerbate, but to relieve a problem like this.

CHAIR:

Thank you. That leaves the chair open for one comment. Thank you very much for those comments, Bob, because I think you've actually focused on something that we should mention at the outset. That is after we've had an open discussion of views on the existing proposal, we shall also open the floor for ideas about alternatives. So keep that in mind. You will have the opportunity to talk about alternatives somewhat later, and I think that that's a key focus for this body especially to be able to suggest alternatives that might work. With that, Tony, you're next.

MR. FIGG:

Ron, what I was going to say is that I perceive a shift in the emphasis of the PTO on the rationale behind these rules. If you read the Federal Register Notice that accompanied the rules, the emphasis was mostly on backlog, and that's what we've been talking about here so far this morning. I've been on a couple of programs with John Whealan, and he seems to be, and I don't know if his position reflects an official position of the Patent Office, but he seems to be steering away from the backlog argument and moving more toward the argument that this will make the system better: it will improve the public notice function of patents. But I think we should all keep in mind that there are two issues here. One is the effect that continuations have on backlog at the Patent Office and the other is the abuse—what some people see as an abuse—of continuation practice. That is, keeping a patent application pending *ad infinitum* and watching what your competitors are doing so that you can hopefully find

some claims that cover what your competitors are doing. If you agree that those are both problems that need a solution, the solution to those two problems might be different.

And, just following up on John's comment, I think that the evidence that this procedure that's been proposed will have a meaningful effect on the backlog in the PTO is questionable at best. Yes, it might eliminate some continuations, but it's going to do so at the cost of greatly increasing the number of appeals that are filed. I think, as Larry said, there's going to be a filing bubble. No question about it, because people see this coming. There's going to have to be a structure in the Patent Office to deal with petitions. So they're taking something out of their left pocket and putting it in their right pocket, I'm afraid.

CHAIR:

Mike Kirk?

MR. KIRK:

Thank you. I would like to agree with Bob Rines that it is incumbent upon us to try to find solutions, and I agree with Tony that there are two different arguments that can be put behind this proposal. I'd like to step back though and say, with respect to the argument that this will significantly, or in any way, make a big dent in the workload and backlog problems, I do not see that happening. In the notice itself, they say there's only 21,800 second or later continuations and RCE's. So 22,000 cases out of 400,000 they're going to impact. I'm not sure that from a backlog standpoint that's a significant solution. There are arguments to be made with respect to constraining continuation practice with regard to the second reason that Tony mentioned—the dragging out of cases and catching a mature industry by surprise. This proposal is not, I would submit, geared to address that.

One comment I would like to make is that with respect to the notion of reducing the backlog and bringing pendency under control, I personally do not accept the rationale that the Office is putting forward. They are making the statement that they cannot bring the pendency under control through hiring. I find this to be an incredible statement when you look at the facts and figures. I worked in the PTO in the 80s when there was a similar, albeit smaller, problem which was brought under control through hiring and through a stable source of funds for the best part of a decade.

In this particular situation, we're dealing with an issue that, unfortunately, was more than a decade in the making. From the early 90s through the early 2000s, the Office was starved of funds. It was not allowed to hire examiners at the rate that the workload was increasing, which basically meant the examining corps was getting older. You weren't bringing in the fresh blood. I think the impact was not as readily apparent because the Office is able to use

overtime, which is a very cheap way of processing cases, but you're really robbing Peter to pay Paul. This is because, while you can get work out the door, you aren't building up the fundamental resources you need to continue. So we're now beginning to pay a very ugly price.

But I go back to the statement that you can't hire your way out of this. The Office now has funding for the last year and a half to hire 1,000 examiners a year. I don't know if this is the right number or not. I know it's difficult to train that many people adequately and to keep them in the Office, but I find it somewhat difficult to understand why if you are increasing your staff by 20 to 25 percent annually—and it's probably a little less than that due to normal attrition—but if you're increasing your staff let's say by 18 to 20 percent annually, and the workload is increasing somewhere between 8 and 12 percent annually, it seems to me that you are catching up, and you are outrunning the workload through the hiring of new people.

Now, yes, this will take a very long time to correct. It took a very long time to get into the situation we find ourselves now. So I think that a proper focus for the Office, as far as the pendency issue is concerned, is to not worry about trying to resolve this problem before the end of an artificial period of time, let's say the next two or three years, and look at the longer term goal of what really is best for the system and the Office. I'm not saying that the Office doesn't have a problem. They have a severe problem, and we should work with them in any way we can. I think that Ron, you make a good suggestion about coming up with some ideas, before we leave this topic of alternatives, that we might be willing to pursue because I would like to take the floor again. Thank you.

CHAIR:

Dave?

MR. SIMON:

Thank you. I think my comments will be actually devoted to being in favor of the proposal. So there are a couple of points that I wanted to make. In addition to the comments that Mr. Figg mentioned in reference to other policy reasons, and in fact I think there's an excellent article written, if I may refer to people from other academic institutions, by Professors Moore and Lemley on continuations and on the policy ramifications of continuations. Being somebody in an industry who finds themselves constantly being sued on patents where it was painfully obvious that the patentee was off on a completely different aspect, and then after they saw our documentation they started just literally writing claims, copied virtually verbatim from our documentation, and then trying to argue that they have support for it. I don't think from a public policy standpoint

that that is a good approach, as it causes all sorts of problems in industries such as ours that are dependent on network effects.

But turning specifically to why, in addition to those policy reasons, why I think these rules are actually something that I'm in favor of. It will reduce the backlog. And not only do we do a very large number of video streaming cases, not surprisingly, we do an awful lot of patent applications on computer architecture. Our average time on our cases, and they don't all come out of the same groups, is getting first office actions at five plus years now. It's very common for us. If you start to think through and look at what's happening, it's the PTO practice that cases with the longest pendencies are processed first—as I understand it—according to the original filing date, cases go to the top of the heap. As a result, those cases are getting examined first. As a result, in our industry which moves fairly fast, we're getting patents out the door after the patent is already obsolete, which is a real problem.

In trying to think through the solutions, the alternatives, because I really believe we have to change our practices, one of my observations is that patent attorneys are the most conservative bunch of people as practitioners that I've ever met. They don't want to change their practice. But if we don't do something, we're going to have a real problem. In terms of alternatives, we could say the older the continuation, the further back in the stack it goes to. Well, the problem with that is that we would end up in essence doing away with the 20 year rule. Because those people will be able to petition for extensions on the pendency, and you're going to find that their cases are going to be lasting for 30 to 40 years. And we have enough of those in our industry also from their original filing date.

The cases are very significant in the fields we work in. The percentage of continuations, multiple continuations, and continuations with large numbers of claims, and the fact that they go to the front of the pile, contribute to a massive delay in our field. As a result, and in light of the points made by Professors Moore and Lemley, we think continuations are bad, as it makes it virtually impossible to have a licensing discussion with somebody on why you don't infringe because whatever you tell them, they're going to turn around and rewrite their claims to try to cover. But the examiners are overworked, and as pointed out by Mr. Rines, inexperienced. We're seeing cases where that's really obvious. Sometimes it works to our benefit where we get a patent and we're kind of scratching our head as to why we got it.

MR. HAWLEY:

Which one?

MR. SIMON:

They're very few Jeff, and they're not the ones that you infringed, by the way. But more commonly they come to our attention because somebody has brought them to our attention, whether by letter or by complaint. And you know, due to the turnover history in the Patent Office in many areas, well over 50 percent of the examiners have only one to two years of experience. In my view, you get better as an examiner when you've got ten years, not two years or four years after finishing school. I don't see how we can get ourselves hired out of this. All I see is if we try to hire our way out of this, we end up, given the past experiences with this, in lowering patent quality even further. So, I really think we have to look at how we practice and be willing to accept changes on how we practice, which I know goes against the grain of many private practitioners. And I have the additional benefit that I'm highly unlikely to be sued for malpractice by my client. But I really think that if we don't do this, and we don't adopt this, we're going to find ourselves in a situation where at some point the public is just going to rise up and say enough of this.

I just came from Europe and let me tell you the atmosphere in Europe, the attitude in Europe towards—and I'm sure Heinz Bardehle can talk about this more than I can—patents and intellectual property as a whole, is one of tremendous hostility as a whole because they don't see the value in the system in many parts of Europe, and we're going to see that here.

CHAIR:

Thank you. Herb? You have the floor.

MR. WAMSLEY:

Adding to the points that Tony Figg, Mike Kirk, and Dave Simon made, I heard a talk down in Washington last week by Dean Kamen who quoted some famous person saying, "It's really much easier to suggest solutions if you don't know too much about the problem." I don't claim to be an expert on the problem, but I think the people who have already spoken recognize it's difficult here to even say what the problem is. But focusing on the continuation applications, certainly if there's not a problem with continuation applications, at least there has been an enormous change about continuation applications over the last several years. Don't hold me to the exact numbers, but a Patent and Trademark Office graph showed that around 25 years ago the percentage of patent applications that were continuations was around five or ten percent, and now the percentage of patent applications—Craig I think you have the numbers—is up to around 30 percent. So, there's been a dramatic increase in the number of continuations over time. Now, why is that? We were talking about the backlog. Now that certainly is a problem, whether or not it has anything to do with the continuations rules you are debating. Tony Figg said some people think there's

a problem with continuations in that applicants have abused continuations for strategy reasons, but maybe there's also a problem in the Patent and Trademark Office that has caused this big rise in continuations over time. Is it possible that over time the quality of examination has become poorer so that the applicants have to file more continuations in order to cope with the system? Is it possible that a number of subtle changes have been made in the Office's processes over the years, so that the Office has become heavy handed with the second action files and everybody has to file more continuations?

I just mention these things to illustrate how many possible problems exist. It would seem to me that the fact that continuation applications have risen so dramatically over time is a problem in itself because it causes inefficiency in the Patent Office to examine all these extra applications. The system would work better if the Office could examine original applications and get on with it. So what is the problem?

CHAIR:

John?

MR. WILLIAMSON:

I'm going to refer to the second issue that Tony Figg identified as the *Lemelson* model. The reason I'm going to do that is because the discussion around the table sort of implies that those who practice the *Lemelson* model are only those who are wearing black hats. I'm going to say that I don't believe that's the case. I've heard some very respected patent practitioners advocate continuing to have on idle, in the Patent Office, a patent application for the very reason to allow you to have more flexibility in litigation. I've heard it said by at least one highly regarded practitioner that it would be malpractice for you not to practice the *Lemelson* model in your representation of your client. So there are people with white hats on out there—at least people here would say they have white hats on—who are practicing this technique.

As long as it's a permissible practice it in the Patent Office, you may want to think about whether it's malpractice not to follow it. Certainly within PPG some of my practitioners did follow it, and I did not discourage it, and they followed it to our advantage. I believe that whether or not the proposed limit on continuations addresses the backlog, and I don't purport to be an expert on the Patent Office procedures, so I wouldn't disagree with Mike Kirk on that issue—but I believe it does address the abuses that are created by the *Lemelson* model practice. And to that extent, I support the changes for an alternative that would address the *Lemelson* model practice in a way that makes it unavailable, so that neither those with black hats nor those with white hats will be using it.

CHAIR:

Phil Johnson?

MR. JOHNSON:

I'm always struck in discussions of this kind that we hear about many public policy ideas. Public notice function of patents being one without much discussion of the overriding purpose of the patent system, which I think we all assume. But it seems to me that the overriding purpose of the patent system is not to provide public notice, but to provide fair reward to people who invest in and achieve invention. When I hear my friends like Dave Simon saying it's not working because when we invest and invent but we can't get protection that is timely to cover our products, that's a major concern. What I think I also realize, and I think many of us do, is that this isn't a problem that has just sprung from the practitioners or just from the Patent Office. Over time, I think that the Federal Circuit has, through a series of cases, shifted the burden back on the practitioner and on the Office to come up with claims that are more specific. This series of cases begins with *Markman*,[10] and moves through *Festo*[11] and others. These cases put quite a premium on the semantics of the patent claim and, in fact, it's gotten to the point that Judge Robinson from Delaware has publicly explained that patent litigation now is more about semantics than it is about science. For those of us who see the patent system as properly trying to stimulate investment and invention, this approach has gone astray. Patents should not be awarded to the people who have the smartest patent practitioners representing them or the people who are the best wordsmiths. The best protection should go to those people who have the best inventions.

Now, having moved somewhat away from the Doctrine of Equivalents, which is one of the great equitable doctrines intended to prevent injustices, and having continued to allow, at least to some degree, the frequent filing of claims of inequitable conduct, I think we have somewhat chilled reliance on the courts to enforce rightful patent protection. At the same time, prosecution in the Patent Office is conducted in an atmosphere where you're very concerned about what you say to the Office. You can no longer have the kind of dialogue that I believe was once had before our so-called "compact prosecution," because people are afraid that anything they say to the Patent Office—and I mean anything they say to the Patent Office—might be seized upon in later litigation as a basis for an inequitable conduct claim.

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[10] Markman v. Westview Instruments, 517 U.S. 370 (1996).

[11] Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2003).

So, we have many factors which bring about a situation where people with entirely legitimate interests feel they have to keep continuations pending because they don't know how their patents are going to be treated when they get to court. They don't know how they might be interpreted. For example, I am aware of one court that held a two-day *Markman* hearing where several distinguished linguistics experts testified about the meaning of the word "and" as used in the patent claim. When we get to that point, then I ask how can anyone freely walk away from a chain of prosecution? Heaven forbid if it turns out when you get into litigation that simple words in your claim don't mean what you thought, and your client finds itself without the patent protection that it deserves.

So, in all of these conversations I would feel much better if we could keep in mind what the system is supposed to do, and how are we going to get it to work as intended. I am troubled. I've heard Dave [Simon] many times talk about the problems, and they are real problems apparently. I don't know. I don't practice in his area, so I don't have first-hand knowledge. But, I wonder, should we re-invigorate the standard of § 112? Should Dave not have to worry that someone is going to pull claims out of an application where there's no fair basis for it? Are we looking at the right part of the statute and the right part of the procedure? On the other hand, if you can read the application and fairly understand what the invention is, is it so terrible that someone gets an additional claim in order to go after an infringer who has tried to exploit a semantic loophole to misappropriate the fair value of the invention that the inventor has given?

CHAIR:

Thank you. Mel Garner? By the way, I'm not trying to be impolite by using your full names. I've just decided I'd rather do that than interrupt you for introductions. So Mel Garner.

MR. GARNER:

That's a good thing because I probably would have forgotten. I think I can agree with all of the speakers that the reason for the Patent Office's backlog is multifaceted. You can certainly blame the court, particularly the *Festo* decision, because that changed the way people prosecute patent applications. I think you can blame the Office itself. I think you can certainly blame practitioners. I think you call it *Lemelson*. I call it "late claiming." Whatever it is, that's a doctrine that does go on. I've done it in my office in appropriate cases. I think you also need to lay blame at the feet of Congress because if any real blame is to be placed, it's whoever came up with that phrase, "I'm not going to let you hire your way out of this." That was the dumbest thing you could have ever done

because essentially, in the face of a growing backlog, it didn't allow the Patent Office to hire the people that they needed to get the job done.

Patent examination has not changed a whole lot since Thomas Jefferson did it. You essentially have to read the application. You've got to read the prior art, and then you've got to think about how are they different. I can give you all the computers you want, and maybe it will get you more prior art, which is probably only going to slow you down. But it's a mental activity that requires people, and if you don't have the people, you can't get the job done.

But, I want to focus a little bit now on the Office's responsibility itself. If you look from 50,000 feet into the office, essentially they've got a 20 percent increase in the price that they charge their customers. Their customers are still flocking to the door, so much so that they're now saying we're going to close the door and essentially throw our customers out of the shop. If the PTO was a business in the business world, the entire leadership would be fired and they would bring in a new group. What does a business do whenever it's got a large backlog? You get more equipment, you get more people, you make more things, and you make more money. The PTO's response has been to say that rather than increasing our capability to examine at the higher price that we are now charging, we want to do less work. They want to shift the work to their customers for the same high price. I think at that level you have to look to see whether or not the Patent Office is being properly managed.

To address an issue that Herb raised, why are there more continuations? Well, there are a variety of reasons. Certainly people now know about the late claiming issue, and there's a real philosophical debate about it. If you've got support in your specification, whether or not you should be entitled to introduce a new claim, having been provoked to do so by something you see appear in the market, that's a debate we can have. And you can certainly either fix it or not fix it without going through the continuation procedure that the Patent Office is suggesting. One of the real reasons for the increase in continuations is the absolute decrease in the quality of examination. It is almost impossible in some subject matter areas, and I practice in the same area where Dave Simon has his cases; it sometimes is impossible to get meaningful responses. You may get a first office action. But after that, they essentially copy whatever they did in the first one, paste it into a new office action, and say they considered your arguments when they really haven't and continue that process. It is so bad that I have one particular anecdote to illustrate where I was in Washington for a meeting, and I had my suit on, and I wanted to go interview an examiner because I had said time and again, "This phrase is not contained in any piece of prior art." I went to the interview on the subway in the middle of the heat in the summertime, so I was sweating profusely by the time I got to the Office. I made my pitch before the examiner and the supervisor, and I said, "Where is this in any of

the prior art?" The supervisor looked at the examiner and said, "Well, where is it?" And the examiner said, "Well, it's not there, but you let me issue the office action." It started out as a bad situation. The supervisor said, "Okay, submit your argument." I submitted my arguments, and I got exactly the same rejection again. So I filed a Notice of Appeal and used the pre-appeal brief technique. I submitted the request and the panel checked the box which says that the examiner was wrong; it's being returned to the examiner. It went back to the examiner, and I've now gotten another office action, and it's a carbon copy of the same one again. So I have been up and down to pursue this case.

One final note, AIPLA had received a chain of emails from some of its members saying that the Patent Office was playing games with appeals. That essentially that even when you said, okay, I'm fed up, I don't want to file a continuation, I want to appeal, the examiners have this process where you file your appeal, and they bounce your case back anyway by reopening prosecution. Just in the last couple of weeks one of my clients wanted to know how long it takes for an examiner to file an answer, once you've filed your brief. So we ran some statistics on our own cases, and the answer to that question was anywhere from one and a half months to four months, but the average is about three months. But the startling statistic that came out of it was essentially this: that since 2004 my firm has filed over a hundred appeal briefs, and we got 13 examiner answers. That means that in only 13 of those cases the examiner actually filed an answer so that we could go up on appeal. In every one of the other cases, either they allowed it or they sent it back for further prosecution. So, it's this constant mill that you're running through trying to get a decent examination that is causing people to file continuations. In the first place, continuations were being filed because it took two and a half years to get your appeal heard. Now they say it's down to six months, and what's going to happen is all those continuations are going to shift over to appeals, and they're going to blow that appeal limit right back up again. So, if the Patent Office could get in charge of its business, I think you could get a lot fewer continuation applications. People don't want to continue churning a case if there's good prior art. You just tell your client you're not going to get a patent for this. It's when you know you've got an invention and you can't get them to allow the case that causes the problem.

CHAIR:

David Kappos.

MR. KAPPOS:

Right. Thanks Ron. Well, a number of comments. It's always interesting to enter the debate after a lot has been said. There's been, in my view, a lot of really good comments from all sides on issues so far. At IBM we start this

discussion from a slightly different policy level than I've heard so far, which is that the overarching purpose of the patent system is really not to protect inventors or patentees, whether they be big companies or small ones or individuals. The overarching purpose of the patent system is to benefit the public. When we start from that perspective, we then land on a point that's been made already which is that the patent system definitely has some problems. The Patent Office has plenty of them as the Patent Office themselves point out quite rightly. The solution to those problems will be manifold, but at the end of the day applicants especially, many of whom are represented by those of us in this room, applicants need to bear a significant part of the responsibility to help the Patent Office in order to get out of the difficult situation that we find it in. When we proceed from that perspective, we then get to the point that the issue that we're dealing with around this continuation practice change is in part a workload issue and in part a quality issue or an "abuse of the system" issue. Both of those points have been made already. I think they're both right to a certain extent.

We file about two percent of all the patent applications that get filed with the USPTO, so IBM is kind of an overall barometer, at least across a broad range of information technology and beyond. We went back and did a survey of our something like 20,000 pending applications currently in the USPTO. We looked over the many thousands of cases that have been prosecuted in recent years and thought through what it would mean to us if this new continuation proposal was in place already. I was a little surprised. What we found was that if the proposed continuation practice changes, it would have a relatively minor impact. There are not that many cases, at least for us, that go into the second, third, fourth continuation, or beyond.

Then secondly, in those cases where we found that it would have an impact, we took a further look and thought through what we could do to mitigate the impact, or how we could change our practices in order to avoid that impact. My belief from that exercise is that as applicants we would come up with ways that would be very legitimate and appropriate to change our patent prosecution practice appropriately, so that the vast majority of our cases would fit within that first continuation. And for those cases that needed to go beyond the first continuation, we would have adequate reasons such that if the Patent Office's rules regarding what it takes to get to a second or third continuation are put in place in a reasonable way, we probably would be able to meet the requirements and get to the second or third continuation. So, we need to set a bookmark there, and when we get to talking about how to improve the continuation proposal, one of the things we should talk about around this table is how we would guide the Patent Office in setting up the criterion for prosecuting in getting past the first continuation. Obviously, if that bar is very low then those who don't

like this rule would be satisfied because almost every application would get over it. If the bar is very high then quite the opposite.

A couple of other comments. At IBM we see a positive impact from limitations on continuation practice. Whether it's at the first continuation or the second one, third one, fourth one or whatever, the positive impact is limiting abuse of the system. That goes to the point that I think Mel made and some others have made around what we call the late claiming problem, where claims are added many, many years after filing of the original application. Two years, three years, even five years usually does not create the really bad problem. The really bad problem is when a manufacturer has a product that's been in the marketplace quite awhile and a new claim drops down on top of it. That's where it's very hard to mitigate or change course, and that's where we think that if PTO's proposed continuation limitation is appropriately crafted, to build off of what we've seen in the *Lemelson* case and some of the other law that's been developing in that area. Against such abuse, the PTO's continuation proposal really can provide some positive benefits for the system.

The last comment I wanted to make is that the issue in the end really isn't whether we'll preclude second continuations or third continuations or whatever. The issue is really having an adequate explanation for them, getting that in the record, and making it clear between the patentee, the Office and ultimately the public. Remember, the purpose of the system is to benefit the public. If the public has that information, we can all guide our activities later on, knowing what was done, why it was done, and that it's been reduced to writing, and everyone can understand it. We'd get a lot more clarity in the system, and we'd get a public notice function that actually works.

CHAIR:

Thank you. I think at this moment I should like to just inject a few thoughts and then return it to the floor. One of the things that's happening is we're talking a lot about continuation practice and that's excellent. That's what this is all about. But there's also a lot more in the proposal than just continuation practice: so let's think now more granularly about other things like claim limitation, ESD's, all those kinds of additional features that are in the proposal. There has been reference to the *Lemelson* case and I think there's a possibility we might discuss the development of prosecution laches as a potential solution. Intervening rights is a potential solution for the very late claiming situation, as is incremental costs on the applications as they go up. That was originally in the 21st century plan. It was a very strong proposal in the 21st century plan because it went up very high, very quickly. That drew some flack from industry. But it's not necessarily dead if we wanted to discuss it.

There has also been a considerable discussion in the past about using pilot programs to test some of these features. Many of you have commented that you don't know that the problem is really going to be solved by these measures. Should there be pilot testing of these measures to establish that they do really work and achieve what they're intended to achieve? Or that they in fact exacerbate a problem by other means? So I throw all those issues out now for further discussion. We have a little bit less than an hour on this topic and then we'll break for lunch. We will break on time as everybody knows by the meetings that I work with. They are always on time. So at the break we would like to have had some suggestions for the Office as to how they might better improve this approach that they're taking or in fact alternatively, address another way of solving the problem. So let me throw the floor open again. I think Phil wanted the floor.

MR. JOHNSON:

Well, I'm not sure this is what you had in mind, but I'm interested in reactions to Dave's suggestion that one way to approach this is to take any continuations after the second one, move them to the back of the line so that they will not get expeditious examination, thus discouraging filing additional continuations. It may strongly encourage getting the protection you want and need early, while not taking away the right to pursue more later. Even though they're in the back of the line, presumably they could be made special, should there be some exceptional circumstance. Is there any interest in thinking about allowing the Patent Office to do that? Or encouraging the Patent Office to do that?

CHAIR:

Jeff Hawley.

MR. HAWLEY:

Thank you. Phil, I would have to disagree with any suggestion like that. What I was going to say is that we've identified, at least as far as continuation practice is concerned, a microcosm of a lot of different problems. One of which being something that John mentioned and that is that examiner incentives are really messed up. If you look at the 54,495 requests for continued examination and you hear Mel's comments about his experiences, you've really got a problem with the examiner incentive system. They are encouraged to force you into requests for continued examination by their incentive system. They get just as much credit for that request for continued examination as they do for the original, and they put in a fraction of the amount of work. So the incentive system is something that really, really, needs to be studied. I think a group like this or an academic institution can take that up as a project, saying what would be a decent and economically justifiable examiner incentive system, and let's get that fixed.

The second problem with continuations is from a practitioner's standpoint. David spoke eloquently about it, as well as Tony, and that is that there is a real problem with continuations that are eventually allowed years and years after the original application was filed. To put them at the bottom of the pile, I think is the exact wrong thing to do. We have made—I say "we"; I tried to get support for a proposal to address this continuation problem that would produce a scheme whereby whether it be the first, or the second, or the third, at some point continuations began to get very expensive, and at the same time the Patent Office would be required to take them up out of order and to issue them—to take them up and issue them quickly. A lot of these problems that we see are a result of the pendency and the very long cycle times. Imagine what life would be like for people like David Simon if you filed a continuation and it was ruled on that week.

CHAIR:

I think throughout some of these discussions there has also been an underlying concern about potential patent term extension here. So let's throw that into the mix. We've got a lot of things to talk about. Who would like the floor? John Pegram.

MR. PEGRAM:

Devil's advocacy again. First your statement. I support it and still support the idea that there should be some kind of escalator on the fees for claims. I think that was, and is probably the best way to deal with the excess claims situation. We have been talking mainly about the continuations, but I think that is a much better way to address it than the "we're only going to examine ten claims" approach. Again, I would say we're only going to examine ten claims approach is contrary to the current statute.

Now, I'd like to make some positive suggestions as an advocate. What about our reexamination of deferred examination? There are a lot of cases that people really don't care that much about, and there are a lot of you that do care about some, at least some of your cases. It seems to me that if we could get the cases examined that people care about, that would be a good thing.

I also have a thought that is more European, and may or may not be acceptable for that reason, but it may deal with some of the problems we're discussing, and that is to move people towards claiming within the scope of original claims. Now that's a problem in our country because we may be accused of inequitable conduct if we write an overly broad claim for our original applications, where in some other countries that is an acceptable technique and was here 40 years ago when I entered the profession. At least it was if you didn't think the claim was anticipated, and it was arguable as to whether or not it was obvious.

I think it is very important at this time for us to find a practical way to do examination sharing with other leading patent offices. There is an examination resource which should be used. The only thing that I would suggest is that we shouldn't let, for example, all of the Japanese origin applications be examined in Japan and all of the US origin applications be examined in the US office, *et cetera*, but rather there should be some kind of a randomization or sorting so that there wouldn't be a national favoritism.

Finally, I would suggest again that some of us might like to think about whether there would be an advantage to have the Patent and Trademark Office become a public corporation. Thank you.

CHAIR:

Mel Garner.

MR. GARNER:

First a comment about late claiming. You should always remember that late claiming is not tied one—to—one to continuation applications. If you're filing cases in Dave Simon's area, it's pending for five years, and the product has already been through the production cycle; in your first application you get a chance to write claims to cover it. So, if you're really going to go after late claiming, you should think specifically about that.

About whether or not a claim would be valid if it is based on technology that is on the market before the claim is written: you may have some sort of intervening rights as a way of addressing it, or just say you can't have a claim. Going onto ideas. The problem that the Patent Office has with respect to backlog is a personnel problem. It needs a personnel solution, and one of the suggestions I have for them is that there are examiners—many of them whom have retired from the Patent Office as fast as they were able to because of the environment within the Patent Office—who are highly skilled people. If we could somehow allow the Patent Office to outsource some of the training of new examiners to former examiners, I think that they could go a long way toward training. They might, in fact, be able to hire more than a 1,000 examiners in a year if a lot of the training was being done by a lot of these retired examiners—who are still young and quite capable. Another thing along that same line, I think the Patent Office could do very well with some expert help in terms of human resources. Many examiners you talk to are very demoralized by the current situation in the Patent Office. Sometimes the Patent Office makes decisions which hurt the situation. One example I am aware of, is that an examiner was essentially cheating on his time. He was capable of getting his work done in less than the amount of time, but you have to put in the minimum amount; so he was putting down time that he didn't really do, although he was accomplishing 100 percent of his work. Now you could bring him into your office and say stop

doing that. You could even fire him, but what they did was to have FBI agents come in and handcuff him and drag him out of the Patent Office. When you do stuff like that, you demoralize the people that you work with, and it's probably a good indication that you need some help in terms of PR and human resources. I think those are at least a couple of examples. I have some others, but I'll give other people a chance to talk.

CHAIR:

That's the first time I've heard the term "perp walk" made applicable. Heinz Bardehle?

MR. BARDEHLE:

Thank you. John gave me a key word—deferred examination. We think that the system of continuation applications can be abused in order to extend the term of a granted patent. In the meantime, all competitors are held in an unclear situation. The same situation exists in deferred examination; that's why our patent system is, to a certain extent, under some attack not only from the side of so—called trivial patents opponents. We have had and have trivial patents all the time. Also, because of the fact that the time until the grant of a patent is much too long, it is also too long until everybody knows what competitors have to observe.

This also seems to happen in the case of continuation applications. I believe that users of your system from outside the U.S. would not be opposed to the proposed change. I think that the main users of continuation applications are citizens of the United States. I very seldom was obliged or advised to use a continuation application. I think that for us, being not decisive in this case, the step of the Patent Office to reduce the number of continuations, might be a good idea.

With regard to the workload of the Patent Office, it is a good idea, as also mentioned by John, to take over some work done by some other Patent Offices. It is one goal of patent harmonization, essentially to take over at least the search. If we are so far with patent harmonization that the larger Patent Offices can take over the search from another Patent Office, we did a good job, and we diminished the workload on all those Patent Offices. A normal client will never understand that we have big Patent Offices with fantastic equipment and computers, and they are unable to take the search from another Patent Office. They must do exactly the same as what the other Patent Office has done. That might be a vision, but if it comes soon to a conclusion, it would lead to a great discharge of our Patent Office, at least from searching. Thank you.

CHAIR:

Thank you. Tony Figg?

MR. FIGG:

I'd like to sort of continue on the theme, that there really are two issues here: backlog versus abuse. I think the solutions—I don't have the solutions to either of those problems, but I think to the extent that there are solutions, they are different. A number of people around the room have said that what has been proposed is probably not going to have a big impact on backlog, and I personally agree with that. That being the case, we are changing a very fundamental aspect of patent practice. Judge Newman, in her dissent in the *Bogese*[12] case, pointed out that continuation practice is an entrenched part of patent practice. People rely on it. They use it all the time for very legitimate reasons. I practice primarily in the biotech and pharmaceutical fields. Applicants in those fields oftentimes file patent applications at a very early stage in the product development cycle, and meaningful information comes to your attention as the development of the product continues. Continuation practice is about the only way of dealing with that.

With that in mind, you ask for suggestions. There are a couple of things that I would like to say; I don't like the standard that the Patent Office has announced for determining whether you get to file a second continuation. They say that you have to establish that the argument, amendment, or evidence could not have been produced earlier. I would submit that, depending upon how hard-nosed the person is who is looking at your petition, you almost never could meet that standard because you could almost always have done experiments to develop the comparative evidence earlier. Why didn't you? Well, you thought the examiner was wrong with the rejection in the first place. You wanted to have a chance to persuade the examiner to change his mind, but now you can't do that, so you're going to develop comparative evidence. I think the standard should be more relaxed than that, assuming that we're going to have some form of this continuation limitation at all. For example, is a continuation reasonable under the circumstances? I don't know what the standard is, but I don't like the one that the Patent Office has announced.

Secondly, I don't think the line should be drawn at one continuation. Again, focusing on the backlog point, if you look at the impact of allowing two continuations instead of one, it's minuscule. It might be very important to the applicant, however, to be able to file that second continuation.

Those are a couple of thoughts that I have on the rules and they're based on my perception from talking to people at the Patent Office. The Patent Office is going to move forward with some variation of this theme, and so we should

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[12] *In re* Bogese, 303 F.3d 1362 (Fed. Cir. 2002).

make suggestions for improvement of what they have suggested, even if we don't like any form of what they have suggested.

As to the second point concerning abuses of the system, I think Ron, you put your finger on some ways of dealing with that. I agree with Phil Johnson that there are many situations were an invention is described; it's enabled, and you should be allowed to submit a claim for it at some point after your first patent issues. At some point that becomes unreasonable and is against public policy. The public has a right to rely on what they see in the public record. Some codification of *Lemelson*, estoppel principles, or some form of intervening rights could reduce the potential for abuse. What's been said here by many people—improving patent examination quality—I think is extremely important, because the problem that arises is not because of the claims that are fully described and enabled. It is because of the claims that cover the competitor's commercial product that really don't have adequate support. They get through the Patent Office anyway.

CHAIR:

Doreen Hogle?

MS. HOGLE:

One of the problems I have, as far as trying to come up with a solution, is the fact that, in my mind, a straight continuation, a CIP, and an RCE are very different beasts. They're used in very different situations. An RCE, of course, is a function of the, what I consider, very poor patent examination process that's going on right now. I can't remember the last time I had an amendment after final that was actually entered and looked at in a reasonable matter. So, we are forced to file RCE's in order to keep the prosecution going and in order to get claims allowed for our clients.

CHAIR:

Doreen, would you mind just defining an RCE for the written record?

MS. HOGLE:

An RCE is a Request for Continued Examination. An RCE is filed when you have a final rejection during prosecution of an application, and the examiner has refused to enter any further amendments. As a matter of right, we now have an opportunity to request two continued examinations. Upon filing the Request for Continued Examination, the claims are entered, and again we request that the examiner again examine the amended claims. A CIP of course, is when a continuation is filed with added matter. So I think those are separate procedures with separate issues. An RCE is very different from filing a straight continuation where, perhaps, the issue is late claiming. A continuation is very different from a CIP. This is especially problematic in the area of biotechnol-

ogy, if we're going to go to a first to file system. We have clients that will be forced to file a patent application very early on and then need to file CIPs to add data in to support those early-filed claims. So, I find it very hard to talk about a solution to these continuation practice issues when I think we're talking about three very separate matters.

CHAIR:

Ken Walton.

MR. WALTON:

It's hard to add much to the discussion that we've had, but just one point I wanted to make about divisional applications: I find it troubling that you will have to file all your divisionals during the pendency of the restricted application in order to get priority. I know in some art areas, biotechnology comes to mind, you sometimes can have a very large number of restricted inventions. Thus, if people want to have the priority, they will have to file many, many divisionals very early on. I can't see how this is going to reduce the backlog of the Patent Office. I just think it's going to make it worse.

An area that hasn't been talked about too much is the proposed rule on claim examination, including designating ten claims and holding any other claims that you have in abeyance. Currently we pay an upfront fee for those claims. Since December of 2004 that fee has become fairly substantial if you go over 20 claims and have more than three independent claims. It seems you should have a right to a full examination of all those claims to begin with. On the other hand, with the proposed rule, you have ten claims and the rest are to be held in abeyance. If this rule goes through, I'm a little concerned as to what happens to those claims that are held in abeyance. If the other claims are allowed, then those claims supposedly will receive an examination. What's going to be the nature of that examination? Is it going to be a full examination based on 102 and 103, or is the focus going to be just on 101 and 112? Suppose it's a very cursory review, and there's an assumption by the Patent Office that the claims held in abeyance automatically meet 102 and 103. You thus get into litigation. Some of the designated claims from which the other claims depend are found to be invalid. What's the status of these other claims? Are they going to have the presumption of validity or not? Are they going to be looked at differently? Is it going to create an issue in litigation that we presently don't have?

Another concern is the examination support document. If you want to designate more than ten claims, you have to file this document. To my mind, this document is so onerous, and you are required to make so many statements that could come back to haunt you in ways you can't possibly foresee in terms of inequitable conduct in litigation. In effect, no practitioner is really ever going

to file such a document. In effect, you're limited to ten claims under these rules. That's the limit.

Overall, I would like to see this rule go away. Assuming that the Patent Office is going to make some type of rule, but they're willing to listen to modifications, my view would be to have increased fees. Pay the fees that we pay now for the first ten claims. Then for claims 11 to 20 the fees will go up. Then if you want to file more claims than that, there'll be an incremental increase in fees until let's say you reach 50 claims or more, at which point the fees become substantial. But you still—without holding anything in abeyance—have a right to a full examination. I would not like the fees to go up again, because I don't think we're getting our money's worth now, but I think it's better than the rule that is being proposed. At least if your client believes that a particular application requires 50 claims, let's say, and the client is willing to pay for 50 claims, then I think the Office has an obligation to fully examine those claims.

CHAIR:

Thank you. Herb did you want the floor?

MR. WAMSLEY:

Yes. I'd like to talk about deferred examination just for a minute. It was mentioned as a possible solution. When deferred examination was proposed in the 21st Century Strategic Plan, IPO opposed it. Deferred examination would be a convenience for many patent applicants who are not in a hurry to get their patents, but it causes uncertainty about patent rights for other people in the field. Someone recently told me that we have deferred examination already because of the big backlog. I think, in the long run, the best system is to get the backlog down to the traditional goal of granting patents in 18 months. I don't think we should be institutionalizing deferred examination even if we may have *de facto* deferred examination now.

CHAIR:

Thank you. I think Tom Field is over here on my right.

MR. FIELD:

I just had a question. Much of what the PTO proposes is related to cost reduction or to covering expenses. The fee scheme as now set up is heavily back loaded with fees rising from filing, to issue, and through three sets of escalating maintenance fees. This must bear to some extent on the need for measures to reduce or cover examination costs—including hiring examiners. Has anyone looked at how the current fee scheme bears on the PTO's current attempts to cut costs?

CHAIR:

As there's a question on the floor, let's take out of order anyone who wants to answer that question. Michael?

MR. KIRK:

That really doesn't impact the money available for the Office at all because the amount of money the Office gets is the sum total of its fees—assuming Congress agrees with allowing the Office to use its fees, which it has for the last two fiscal years essentially. It's the sum total of all the money it gets—front end, claims, maintenance fees, *et cetera.* It's all taken together, and then hopefully that amount of money is appropriated back to the Office. If you were to raise the front end fees significantly, what you might end up doing is perhaps not collecting a lot more money totally but penalizing inventors of limited means who might not be able to pay that "entrance fee."

But can I make just a comment, if I might? Just a couple of suggestions. Number one: this was touched on a moment ago, one of the major problems that users are going to confront is going to be the problem of inequitable conduct. It is presented by the continuations proposal. It is presented by the claims limitation proposal, and it's going to be presented in spades by the yet unseen IDS proposal for references above a certain number. This is going to have a tremendous impact on attorneys, users, and companies—everybody. It's going to have a tremendous impact. The Office hasn't focused on this. It's not their problem. But it's going to be our problem if these go through, and the Office doesn't address this inequitable conduct issue. I think it's a major, major problem. They can, they just haven't.

Another thing I would just like to comment on; we talked about how we have such a tremendous number of young, inexperienced examiners and how many have less than a year experience, *et cetera.* That's a serious problem, but it needs to be dealt with in a serious way. I think that notwithstanding the fact that we have seen a 20 percent increase in fees; I think that the community needs to consider the possibility of even an additional fee increase. For example, a concerted effort, not only by the Office to the extent that they're allowed to do it, but also by the user community to take the examiner's salary out of Title V. Right now they're limited so that a budget analyst somewhere in the bowels of OMB gets paid the same thing as a biotech examiner at a certain grade, notwithstanding the different skills that are required. We need to break the PTO out of that so that they can pay skilled and experienced people more than they are able to pay them right now. I wouldn't necessarily say that we should go as far as the European Patent Office, but my understanding is that the attrition rate in the European Patent Office is two percent. It's two percent be-

cause they get paid more than U.S. examiners—tax free. There are financial solutions out there. I think we need to consider them.

CHAIR:

Bob Rines?

MR. RINES:

I'd like to give you the benefit of 60 years ago when I was in the Patent Office—some thinking that might be revived. I was taught by some giants. Believe me, they were fantastically experienced examiners, present company not excepted. This problem of a large number of claims was admirably solved, litigated, and supported as within the statute, but apparently has been forgotten. As an examiner, I delighted in giving a rejection of the claims on the ground of undue multiplicity. And what was the rationale behind it? The patent statute says that you must claim distinctly and clearly. The minds that I was taught by in those days concluded it's not distinct and clear—it's not statutory—if you have a large number of claims. We would put the burden on the applicant to explain how each claim was necessary to adequately to protect the invention. You'll never do that with the myriad or chain of dependent claims they allow today.

Having said that, I have the privilege that my grandson is now the third generation of Rines who's a patent examiner. He's just gone through his first year of training, and I get some feedback. It seems to be extremely good; I don't know how competent it is. The one thing that is indeed clear to me is that the name "supervisor" and the supervisory examination process is not working in this Patent Office. Problem cases that never went out without a supervisor review slip through today. Where there was a complaint of an examiner repeating the same rejection over and over again, one always had recourse to the supervisor. The supervisor indeed was almost an ombudsman. They've lost that characteristic now, and I think it was said that there's one supervisor to 25 examiners. They can't do that. My recommendation is that we tighten up on real supervision in the Patent Office, particularly where we have new examiners. Some of them don't even speak or write English well, as yet. And it's wonderful that we can find employment for technical people for whom English isn't their first language. Indeed, nothing should go out of that Patent Office from such people that isn't very closely supervised—that is, if we want to avoid delays in prosecution.

My last point is addressed to the law students over there in the corner. I seem to remember a case called *Muncie Gear Works*.[13] Of course that case was

[13] Muncie Gear Works, Inc. v. Outboard, Marine & Mfg. Co., 315 U.S. 759 (1942).

more perhaps antitrust than patent, but it was a mixture. The courts in that case had no problem with this business of late claiming. I recommend that you folks look at that and see if the legal remedy for late claims doesn't already exist where we don't need new doctrines of prosecution—laches or something of that sort to correct the abuse of somebody late claiming after other people have already come into the market. That's what we really want. So, I suggest to the law students that you might make a contribution to this conference, if you'd see if that doctrine has some applicability to this problem.

CHAIR:

David Kappos?

MR. KAPPOS:

Thanks Ron. The comment about *Muncie Gear Works* is a wonderful one, and a doctrine that, in my view, definitely needs to be revived. A couple of other comments in terms of recommendations or suggestions, and then one comment on the representative claims part of the PTO's proposal. One thing I don't think has been mentioned yet is strengthening prior user rights. That is a piece of the current discussion of possible legislative changes that I think, and Mike and Herb will have to help me with this, is in the coalition print and in the Smith bill and needs to stay in. The legislation and coalition print represent, in my view, a really good approach to strengthening prior user rights. Expanding them beyond business methods will have a really significant, positive impact for those who manufacture products and use lots of processed heavy technology in doing so. Prior user rights provide another approach to dealing with our problems of late initiated claims and multiple continuations.

Back to the point that has been raised regarding further guidance for the PTO, specifically how to set the bar for what constitutes sufficient cause—whether it's at the first continuation, second continuation, third, or whatever. I think more refinement is definitely needed there. The refinement could benefit from being more practical. In other words, what if the reason given by the applicant is a piece of prior art that was not known to the applicant at the time the original application was submitted? Should that be an adequate basis for filing a second continuation but not a third continuation? Along those lines, there are very practical issues we confront during prosecution that contribute to the need to file additional continuations. Recommendations to the PTO based on those issues, in my view, will go a long way toward helping it put together a limitation on continuation practice that might actually meet folks' needs and be workable.

The other comment I want to make is on the representative claims portion of the proposed rule making. It's been made partially before, but I wanted to expand a bit. There will definitely be some challenges in implementing the handling of representative claims, particularly as to those claims that aren't in-

cluded in the representative set. I don't currently understand how the Office will get examiners to focus and do prior art searches and careful patentability studies on the non-representative claims after the representative claims are looked at. It just doesn't seem practical under the current way the Office operates to expect examiners to go back and do a second prior art search. It seems almost inevitable, at this point, that we'll get at best a 101, 112 ¶2 second check on those non-representative claims, leading to questions about how those claims get considered relative to the presumption of validity—an area that probably none of us want to go into if we can avoid it. I think recommendations to the Office along the lines of how do the non-representative claims get treated and how the Office may need to change its practice to handle them, are going to be important to make that part of the rules package work.

CHAIR:

Thank you. Larry Pope?

MR. POPE:

First, I'd like to make two suggestions. One of them has already been partially made here. The first suggestion is to separate the search and the examining function. I mentioned this to the Patent Office. I mentioned it to John Doll at the AIPLA Mid-Winter Meeting, and he said that the Europeans of course do that; that they had run into a problem, and that they're now going in the opposite direction and putting them back together. I don't know what that problem was or what's behind that. In the absence of knowing that, I suggest that it would be a good idea to consider that and to consider it beyond having other patent offices help do the search function. Perhaps the Patent Office could contract out its searches. I know in my private practice, and probably in everybody's, we do a good bit of contracting out searching to private search firms. It seems to me there's no good reason why Patent Office couldn't do the same thing if they're constrained by training or funding or staffing. A lot of these search firms are run by registered practitioners. So I think there's adequate safeguards, and they already contract out a lot of other sensitive functions. I would think they could go ahead and contract this one out.

The second thought I had that kind of goes along the same lines, is to look at what we ask examiners to do at the Patent Office. We ask examiners to do a lot of different functions. It seems the critical function—the really valuable function—that we ask examiners to do is to do the examination, to weigh prior art against the claimed invention. To the extent that we could strip those other functions away from them and assign them elsewhere; we can get more efficiency out of our examining corps. I had in mind the idea of doing something like, again, the Europeans do; have formalities examiners who would be easier to hire, easier to find and train, and have them look at all the minor formalities

that examiners are now tasked with looking at, so that what the examiners task is would be strictly patentability, thereby relieving the burden and getting more efficiency out of them.

I'd like to—this is the first time I've come to one of these, and I'm absolutely fascinated. I've learned so much, and there's been so many good things said here, but one of them that really impressed me was John Pegram's suggestions with regard to how to address these problems. I'd just like to endorse them, and say that, to my mind, they're all excellent. I'd like to comment a little more on deferred examination, as I understand it, because I think that offers an intriguing possibility. As I understand it, the old deferred examination program has existed in a number of countries, including Japan. If someone else, if some third party wanted certainty; wanted to know are those claims ever going to issue; do I have to worry about those claims; what will they look like as being allowed, they could ask for examination. They could actually file a fee, and the Patent Office would take the case up for examination, even if the applicant wasn't particularly interested in having that done. I think a deferred examination system with that feature in it would solve the problem of uncertainties. In fact, it would help even now with the backlog. If you have a backlog, there's nothing that, as a third party, I can do to have someone else's application taken up out of turn. I can't file a petition to have it made special, so I'm stuck with the uncertainty. If we had a deferred examination program, I could ask that his deferred application be taken up for examination and acted on.

Let me mention two other things real briefly.

CHAIR:

Would you do it very briefly? We're down to ten minutes now, and we want to make every comment now as succinctly as possible.

MR. POPE:

Okay. One thing I'd like to point out is, because we now publish applications and make the prosecution record open after 18 months, a lot of discussion has reflected the fact that you can see what's pending. You may not know whether those claims are going to be allowed or not, for certain, but you can see exactly what claims are pending; what cases are still pending; do your own search; and weigh the prior art against them.

I want to emphasize one last thing that I think is right on point. In terms of failure to supervise, the Patent Office has a real problem with supervision, which I think needs to be addressed. And I think it has partially tried to address that problem by putting it on us as applicants, and that's in this rule proposal. I think the problem with continuations is that examiners like continuations, and the Patent Office has trouble supervising their examiners to limit continuation

practice. Instead of that, they're going to impose the burden on us and the way we prosecute.

The very last thing I'd like to say is—I won't take the time to comment on it—the Rule 78 proposal, where they're going to make you take all of the patentably indistinct claims from a number of co-pending applications that don't even have all the same inventors and put them into a single application, is another very serious problem that we just haven't had time to address at this conference, but I think can be looked at by all of us and commented on by all of us.

CHAIR:

Thank you very much. We have many people who wish the floor. I'm going to ask you to restrict your comments to one minute each. Professor Jepson?

MR. JEPSON:

I just wanted to comment on Larry's observation on the separation of examinations and searching, which in Europe is now going the other way. That may be because they really can't be separated. When you're looking for prior art, if you've got the claims in mind, you're formulating in your mind the rejection you're going to write, and with those claims in mind you're able to find and understand the prior art that much better. It's actually more efficient to have the one examiner doing the examination and doing the search.

My other comment is, if a competitor identifies my patent application as one that needs examination, he has just served himself up as a defendant for when my application is finally issued.

CHAIR:

Herb Wamsley.

MR. WAMSLEY:

Craig just made the point I was going to make.

CHAIR:

Mel Garner.

MR. GARNER:

A quick one on claims. If we were to allow the European process where you can have a multiply dependent claim depend on another one, it would shrink the total number of claims, and it would very clearly identify what the inventing feature is. I think that's a way that we could get a smaller number of claims and more efficient operation, and they already do that in Europe.

CHAIR:

John Pegram.

MR. PEGRAM:

I want to follow up on the inequitable conduct aspect and suggest that a large part of the problem here is due to the way in which the presumption of validity has been interpreted. I do not urge abolition of the presumption of validity, which has been statutory for over 200 years. I think an error was made by the Federal Circuit in the *SSIH*[14] case in which it said that the normal meaning of a presumption did not apply to the presumption of validity. In other areas of law, we have, for example, latches in the Federal Circuit's *Auckermann*[15] case; we have what's called the bursting bubble. You have a presumption until there's some reason shown for overcoming the presumption. It seems to me that if we went to a system where if the examiner hasn't considered the same prior art or substantially similar prior art, somewhat like our reexamination standard for a new issue of patentability. But if you're in that situation then you don't have a presumption of validity, and you would have the choice of going back to the Office before your court litigation and asking them to re-examine for that purpose. I don't think we can ever take away from the courts the power to declare that there have been unclean hands in some way, but that requires a fraud standard. Otherwise, I think that the modification of the presumption of validity to a bursting bubble standard would be a way of being able to walk away from a lot of what we have in duty of disclosure standard.

CHAIR:

Dave Simon?

MR. SIMON:

Okay. Since we're running short of time, I'll just focus on one point that hasn't really been addressed yet, and that is the issue of prior user rights. To the people over in the corner, talk about an interesting article issue. There are some really interesting potential issues with prior user rights in terms of competition law, because you could very well see a situation where somebody writes claims based on what somebody or a group of somebodies have released as a product and then just lock the whole market in for those who are then the only people that can practice what now is being claimed. When you live in a world of network effects, that could have some really serious issues that I haven't seen anybody analyze.

CHAIR:

Anyone else for the floor? John Williamson?

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[14] SSIH Equip. S.A. v. U.S. Int'l Trade Comm'n., 718 F.2d 365 (Fed. Cir. 1993).

[15] A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020 (Fed. Cir. 1992).

MR. WILLIAMSON:

Just a quick comment to take us out of our normal geocentric focus. Heinz had mentioned earlier this concept of work sharing among the patent offices, and I know that Jeff and some others are working in that area. It's an important one. I query whether some of the proposals that are being made by the U.S. Patent Office wouldn't have the effect of undermining those efforts by diminishing the credibility of the search and the examination work product coming out of the U.S. Patent Office.

CHAIR:

Heinz Bardehle?

MR. BARDEHLE:

With regard to the outsourcing of searches, I just was informed by the USPTO that they have terminated the contacts with companies who made searches for them. Those contacts ended because of quality problems. So the only answer is that searches from another patent office must have a high quality. With regard to deferred examination, there is the possibility for third parties to request examination. By the way, the Japanese have reduced their term from seven years to three years. The reason was the attack against the long time of deferred examination, despite the fact that every third party could file a request of examination. There is a certain psychological barrier. I know that my German clients said, why should I pay the money for a patent that my competitor will get? This is again a reason to attack the patent system in general. I think we should avoid everything which puts the patent system in a dark light. We already have enough enemies against the patent system. The deferred examination has, in any case, strong enemies. They say that deferred examination creates legal uncertainty for a long time, and patent applicants may abuse that. Hands off of the deferred examinations. That's our advice from our experience.

CHAIR:

Heinz Bardehle has had the last word. As always, a very wise one. I want to thank you very much for what was a very spirited, and I think, exceptionally illuminating ventilation, which is the way we cast this meeting, of the issues that we discussed this morning.

(Off the record for lunch)

V. REFORM OF PRIOR ART DEFINITION

CHAIR:

Now we go back on the record. I think the introduction that Heinz has given us to another of the issues of prior art revision is apropos to our next subject, and that will be introduced to us by again, Professor Jepson.

MR. JEPSON:

Well, what Heinz introduced as the proposed change to Section 102 in the United States, of course, is just as he nicely articulated it. There has been a longstanding tradition, always opposed by Bob Rines, but nonetheless longstanding, [laughter] that the first to invent would be the one who was entitled to receive the patent. This was in contrast with the system in other countries where the first to file is entitled to the patent. We, in an attempt to harmonize with other countries, have found this to be one of the major stumbling blocks. The issue is finally joined, perhaps by a proposal by Robert Armitage, and if not him alone then certainly him and others, for this as Heinz called it the "first inventor to file."

The way this works is that there is a one year grace period for the inventor, that is to say the applicant. The inventor and the applicant may publish, and others who learn of the invention may further disperse the invention for one year. During that one year the inventor must get his application on file. There, however, is no grace period for competitive applicants. The first inventor gets one year to file, but nobody who learns of the invention in the meanwhile has a right to file for an application. We have never co-mingled, or rarely have we co-mingled, the thought of prior user rights with our right to a patent application because, as Heinz points out, it's an anathema to us. It's a foreign concept. Even the horrible compromise legislation with respect to business methods was bitterly fought and is a very poor piece of legislation, ultimately, anyway.

The proposed 102 incorporates into it what is now in Section 103, which is that prior art commonly owned and which was "subject matter" only under 35 U.S.C. would be 102(e), 102(f), 102(g) and would not be eligible as subject matter for purposes of obviousness. If the only basis for prior art under Section 103 is Section 102(e), (f), or (g), that these cases arise where the patent applications are such that prior art is not available. Someone in one lab who learned of such prior art from someone in another commonly owned lab, who made a slight change, and filed an application, would not suffer a rejection for obviousness. If you consider the earlier subject matter as prior art, now in 103, that would be moved to 102 in the new bill.

The changes to Section 102 also reflect the changes under the Create Act. Also known as the joint research agreement exception, it provides that the

definition of prior ownership be expanded to include joint ventures. The requirements are that the agreement be made of record and that it be shown that there are common owners and common inventors. That too is moved from Section 103 to 102. One thing not taken care of by the text of the new 102 would be the topic of what is sometimes mistakenly called secret prior art. For example, in the *Metallizing Engineering*[16] case that you all know so well, the company made a product. The process and the manufacturing of the product was secret, but the product was sold openly. The process could not be reverse engineered from the product that was sold. At some point, the company decided to go ahead and get a patent on that product and process. The question for the court was: is the company allowed to get a patent on its product and process, even though there was no prior art known outside the company itself, and the company's product couldn't be reverse engineered,? The answer to that is "no" because the company had commercially exploited the technology for more than one year prior to applying for the patent. Even though, within the words of the statute, there would be no obstruction to getting the patent, the court ruled as a matter of court-made law (and I'll let our students tell us which judge in the Second Circuit in 1946 wrote this opinion). That holding has become part of the gloss on Section 102 ever since.

The current statute would, on its face, make that subject matter patentable. That is to say, in the new rule it's not precluded any more than it was under the old version of the rule.

The new Section 102 would replace all of Sections 102(a)-(g). All the publications, on sale, prior inventor, and other novelty requirements or statutory bars would be replaced by a standard of "reasonable accessibility."

CHAIR:

Thank you very much. That's an introduction to what will be a monumental change to the law of the United States, if it should pass. I think it's worthy of the significant discussion as to the character of that change; as to the specific wording of the change; as to whether or not there are alternatives that might be addressed; and also as to whether or not there are unexplored ramifications of the change that have not been ventilated yet. So we're back into our ventilation system mode. With that I'd like to throw the floor open for any comments whatsoever for or against the proposal or any other discussion. Heinz Bardehle?

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[16] Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2d Cir. 1946) (Hand, L., J.).

MR. BARDEHLE:

Thank you. I think there might be a misunderstanding from your side about what we consider is our "first to file" system. I think *we* have a "first inventor to file" system. It's another word, but it's the same thing. If there is a patent application, the subject matter of which is derived or stolen from another person, only that person had the right on the patent. I see no difference with regard to "first inventor to file." "First inventor" means original inventor. If that is the understanding then there is no discrepancy between "first to file" and "first inventor to file." Also our understanding is correct: a second applicant cannot get a patent because of the prior art which was created by the earlier applicant. Okay, then we are on the same line.

CHAIR:

Thank you. Jeff Hawley.

MR. HAWLEY:

Heinz, not to worry. I really don't want to speak for Bob Armitage, but since he's not here I will. I think sticking the word "inventor" in there was to satisfy people who were concerned that there would be applicants filing on things that they saw in spite of the fact that they weren't inventors. That was a fear that was expressed by a portion of the "lunatic fringe" community. And I think the reason Bob stuck the word inventor in there was to make sure that everybody understood that the only person that really could file was somebody who was indeed an inventor and not somebody who simply read a journal. So not to worry, Heinz, I think we're on the same page.

CHAIR:

Bob Rines.

MR. RINES:

I must confess that I am one of the "lunatic fringe" and also someone who is very concerned about universities, independent inventors, and having a playing field where they can also participate. May I tell you that Bob Armitage (who'd been mentioned) and I have talked about this. I have been at some of the so-called open town meetings and expressed myself on it. I'm glad that Herb Wamsley is here, because he was one of those who explained what this "first inventor to file" meant.

First of all, it's an attempt, Heinz, to find something that, even if it's magic and smoke and nothing else, will make it at least look like we can harmonize with "first to file." The bogeyman is supposed to be the interference proceeding, and that is such a terrible thing. Today, however, a very small percentage of our cases are involved in interferences. I'm happy to say that under the

streamlined practice I recently successfully got an interference resolved in less than a year in the USPTO. This terrible interference practice!

But having put the word "inventor" in the "first inventor to file" proposal, does not mean that there is going to be no interference-like contest. Not just "first to file," where bureaucrats in Europe can do that very easily with a date stamp, but how "inventor" will be labeled on the files as well. The whole proceeding of interferences comes up with all of the proofs that are still going to be required: conception, corroboration, diligence, and everything else. There's a lot of baloney in thinking this phase has eliminated interference-like proofs.

Now having said that, is the sky going to fall down if we go to a first inventor to file system? No. But have no illusions; if that word "inventor" is in there *that* means something in the United States. Anyone who's going to challenge, is in effect, going to go through an interference-like proceeding of proofs to prove that they, indeed, were an "inventor."

Now, indeed, there is some truth to the argument, from this "fringe group," and I was one who really used this argument. "First to file" applicants don't have to swear to anything—in Europe or the rest of the world. Nothing is under oath. There are no penalties. Anybody in the world can file anything they want, but that's not the way we play ball in the United States. In America, you have to take an oath under the pains and penalties of perjury that you're an inventor. Everything you prove as to your inventorship has to be under oath, has to be corroborated. That's the way we do business, because if we went to first to file, anybody could file and defeat everybody else all over the world, except in the United States and the Philippines. That was the gravamen of the lack of what, I would say, sense for America changing a system that has outperformed the world for over 200 years, why should we go to your system which is so inferior in its product?

Next result. Let's look at the independent inventor. Now those that know constitutional history know that John Fitch, one of the inventors of the steamboat, had a profound influence on Madison and the others at the Constitutional Convention. Matter of fact, two or three days after he gave a demonstration to the delegation in Philadelphia, Madison put in the Patent Clause. So, the independent inventor and the independent entrepreneur have historically been well entrenched as the very purpose of our constitutional provision for patents. Today, it's estimated in some quarters, in excess of 40 percent of breakthrough invention still comes from the independent inventor. This is so even in this great era of computers, nanotechnology, microbiology, and software. The Patent Office says that 18 percent file as independent inventors. Let's take it. I think it's low, but let's assume that's correct. This patent system has got to work for 18 percent, as well as for the "big boys." Look at the plight of the independent inventor, and look at the plight of the university

If these ideas of prior user were to be adopted in America, what independent inventor would ever get a financial backer if he had to caution that any and all secret users or even planners could surface to demand a free license called a "prior user right" to use the idea? If GE, for example, had a notebook entry to the effect that they were preparing to implement the idea, they might claim such rights. How would anybody ever get a venture capitalist or any angel to back them in a situation where, even though you're entitled to a patent under American law, someone can later say they were working on that or are intending to work on that idea and therefore they had prior user rights. These are inimical to the American tradition. This is not because I'm an old man or just hanging onto history but because I'm hanging onto it because it's a far better system for independent and entrepreneurial inventors.

When you talk about "harmonizing," I wrote a book in the 1960's calling for harmonization, but I didn't mean your kind of harmonization. I meant, you take the best ideas from Europe, the best ideas from America, and you sit down and see how to blend them to be consistent with your own public policies and own goals. Harmonization meaning that we should do what the Europeans do—hey, that's why my folks left Europe. I don't mean to be harsh, but as a member of the "fringe group," I have to say that there are very cogent reasons why leaving "first to invent" in, and leaving "prior user" out, are good for everybody—and this won't exclude this prodigious group of university inventors and independent inventors from even getting a start in the entrepreneurial role.

CHAIR:

Thank you, Bob. I would only comment that perhaps pick on somebody other than GE next time please. With that I turn it to John Pegram.

MR. PEGRAM:

At some risk due to my proximity to not only the esteemed Dr. Rines but really the person who created the whole opportunity for us to be here, I would suggest that a system in which we have a first to file with a prior user right of the type described by Heinz Bardehle indeed is probably more favorable to the majority whether they be 18 percent more or less of those people who file US applications who are universities or small entities or individuals. The prior user right would be a defense. It would have a limited effect. I think it has to be carefully drafted to make sure that it is not this type of secret, "Well, we were thinking about it," but a very genuine, "We were actually using it."

There are reference points for that both in foreign law and perhaps in such things as re-issue area, where we look at equitable rights if somebody was already doing it before it was claimed in a re-issued patent. The fact of the matter is that it is misleading to individual inventors or small entities to have them think that they can publish their idea out to the world and then file an applica-

tion at a later date and say, "Oh, by the way that thing that I gave away last month is all mine and nobody can use it." Now the harsh way would be to say there is no grace period, and the harsh way is the way that many people favor. In many ways it's the most practical and direct way. But I think that the grace period of a year is appropriate, and I think that a prior user right requiring that somebody really be a user is also appropriate. What we should do as practitioners and representatives of associations in the IP area is to make it very clear to all potential applicants that if you want to have a totally exclusive right you file your application before you publish.

CHAIR:

Thank you, John. I also want to comment. Just as an observation from the Chair, we are not here really today to argue the merits of "first to file" versus "first to invent." We're here to debate the issues surrounding the proposal for amendment for prior art that's in the Bill and to ventilate so many of the issues that have not been ventilated about that proposed statute. So please, the Chair won't exercise any more control than to merely suggest that the "first to file" / "first to invent" debate could take the rest of the day, and we'll achieve absolutely nothing in the end. Let's talk about, for today if you would, for the next hour or so, the issues of the prior art amendment that are being proposed in the current statutory proposal. Professor Jepson wants to make one comment.

MR. JEPSON:

Yes, thank you. I just wanted to remind everybody—just for fodder for thought—you'll recall that in 1790 the statute read that there could be no patent if the subject matter was known. Then along came *Pennock v. Dialogue.*[17] There, the inventor of the fire hose had sold some fire hose for 13 years and then filed for a patent application. His argument to the Supreme Court was that "known" can't mean me, not the inventor, because after all, I knew it before I filed so there's an inherent inconsistency here. There must be an exception for the inventor, otherwise, the statute can't have any meaning. The Supreme Court ruled that the inventor was right but made up a two year grace period. At some point, when technology had advanced far enough, the two years was changed to one year, and then we are where we are presently. So if we believe Holmes, that law is more experience than logic, than there is something in that grace period that seems to satisfy all comers. That should be part of our conversation.

Also in the *Metallizing Engineering* situation, recall that that was not really secret prior art in the sense that that prior art disabled only *Metallizing*

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[17] Pennock v. Dialogue, 27 U.S. 1 (1829).

Engineering. Anybody else could file for a patent application; recall the *Gortex*[18] situation.

Secret prior art is more like a patent application that's in the PTO and for 18 months it's not published. That will disable everybody when it does get published but until it gets published it's secret.

CHAIR:

Thank you. Now I have a faux pas in that I have not allowed two persons who joined us to introduce themselves on the record. Tom Field has already spoken, but he didn't actually tell us who he is and with whom he belongs because he wasn't here when we immediately began. So Tom, would you introduce yourself to the group for the record?

MR. FIELD:

I'm Professor of Law at Franklin Pierce.

CHAIR:

That's Tom Field. Now we have Dan Cahoy.

MR. CAHOY:

Yes, I'm Dan Cahoy. I'm an Assistant Professor of Business Law at Penn State University.

CHAIR:

Welcome, both of you. Dan Cahoy was the first to win the Giles Rich Moot Court Competition at Franklin Pierce. The record will show rampant applause. With that, I now throw the floor open for other discussion. Tony Figg?

MR. FIGG:

I have a question for this distinguished group because I've been grappling with this. I've talked briefly to Bob Armitage about it. Professor Jepson mentioned that some of the secret prior art provisions would go from Section 103 into 102. Here's the situation I've been grappling with: Inventor A makes an invention but doesn't publish it, doesn't try to file a patent application on it; he simply has made a good invention. Engineer B—I won't call him an inventor—Engineer B somehow manages to learn about A's invention and makes an improvement to it which, by itself, would not be patentable. The improvement is a trivial thing but makes it sufficiently different that it's now novel. The question I have is, if Engineer B now files a patent application on the improved invention that has resulted in what both A contributed and what B contributed, is it patentable under the proposed statutory language? I think under *Oddzon*

[18] W.L. Gore & Assocs., Inc. v. Garlock, Inc., 842 F.2d 1275 (Fed. Cir. 1988).

Products[19] it would not be patentable under today's regime, but I have trouble seeing why it would not be patentable under the new rules. If it is patentable, is that the right outcome? Should it be patentable? So I don't have the answer to that. Perhaps some of you do.

CHAIR:

Tony, would you add a little bit of reasoning as to why you had this concern? Is it based upon the term "known" and the fact that A's invention is not reasonably and effectively accessible?

MR. FIGG:

Yes. Well, it's not reasonably accessible to the person of ordinary skill; it's only accessible to Engineer B in my hypothetical. It's not known to the public.

CHAIR:

Tony is now getting to the meat of what we want to ventilate here. What are the unexpected results coming from this proposal for amendment of the statute and so forth? The floor is open again. Tom Field.

MR. FIELD:

I spend some class time on the *Oddzon* case. If we do not want two patents that are obvious in light of one another, the Court's interpretation serves that end. It seems to me that the source of the secret prior art, A, has superior rights that should be compromised only if another independently invents. If A discloses to B, I see no reason why B should have a valid patent except as an assignee of A's rights.

As things now stand, A apparently could prevail if he files within a year of publication of any overlapping application filed by B. If not, A would seem barred by Section 102(b) . "First to file" aside, I see no reason to encourage parties to file for obvious variations on strangers' secret inventions.

CHAIR:

Other observations? Mike Kirk, please.

MR. KIRK:

Tony, I have a question because I would like to find out from you what you have heard from Robert. The reason I ask that is because I would have expected that he would have said something about the original inventor being able to file a patent application, getting into a derivation contest under 135(a), and being able to prove that he was the original inventor. Then Engineer B is left

[19] OddzOn Prods. v. Just Toys, 122 F.3d 1396 (Fed. Cir. 1997).

only with an obvious modification of something that he didn't invent, and therefore he not be entitled to a patent. That's what I would have thought Bob would have said, but what did he say?

MR. FIGG:

Well, in fairness to Bob, we did not have a lengthy conversation. I believe that his view is *Oddzon Products* would be legislatively overruled by this. I intentionally left out of my hypothetical that A files, because I think if A files you do have a different situation, particularly if A has an earlier filing date. What I'm suggesting is if A doesn't file, B really doesn't make an invention because he's only made an unobvious improvement over A's invention. I don't see anything in the statute that makes what A told B prior art to B. That's the issue I'm trying to pinpoint here.

CHAIR:

Other observations? Dave Kappos?

MR. KAPPOS:

Thanks Ron. I'll not try to further answer that question, which is going to ultimately come down, if this legislation is passed, to judicial work. Instead, I'll try to take what I think is the genus of the species we have been discussing up to a higher level and then take it back down into the information technology world for a moment. I think the issue is that we're changing the thinking about what's publicly known and introducing some new terminology that's not yet clear. As I understand the import of the proposed statute—and by the way IBM supports in general the approach that's being taken—what is "publicly known" is going to be framed in terms of what's reasonably and effectively accessible. I think that's what you mentioned, Ron. Which in turn resorts to the concept of undue efforts. So you've got several levels of definition that would be required to determine what qualifies as being publicly known. Filling in these definitions will require judicial work.

Where it's interesting in information technology is how this "publicly accessible" concept works in the case of computer software. Proprietary software products are made public by way only of its object code. The source code may or may not be "publicly accessible," depending on how you define that term. Thus, the product's code may or may not qualify as prior art.

In discussions that I've had with Bob regarding this issue, we've tried to work on a legislative history approach that clarifies that public accessibility for computer software would include the source code even where only object code is made publicly available by way of a product introduction or otherwise. So, even if the source code of a product isn't made publicly available, the fact that the object code is made available would render its derivable source code from

reverse compilation available as prior art. I'll go out on a limb and say I think that's the right approach because it means that a software divulgation—a making public of object code of software—will enlarge the body of prior art that will be available in order to examine or later challenge the validity of software patent claims.

CHAIR:

Just for clarification on the record, may I ask a question? That would be, would the availability of the source code effectively, the availability of the known aspect of that source code, be dependent upon the ability to decompile the object code? So for example, if there was a contractual restraint on decompilation or disassembly such that one could not legally under the contract of license take the software from object code to source code, would it still be known?

MR. KAPPOS:

Right. My view is that the source code should still be considered "known" for purposes of prior art applicability. In other words, the interpretation that making the object code public renders the source code effectively "publicly available" for use as prior art should be independent of whether the product manufacturer places a contractual restriction on reverse compilation.

CHAIR:

I understand. Mel?

MR. GARNER:

My question is sort of the same thing except move to the microprocessor a moment. Intel's microprocessor probably has a million transistors in it and thousands of circuits, yet it comes out into the market as this encased chip; so the product is really accessible but knowledge of the circuits that are in it are not. Yet the way this is phrased, "embodied in or otherwise inherent in subject matter that has become reasonably effectively accessible," essentially makes all of those thousands of circuits prior art. Is that the way this is to be written?

CHAIR:

Dave Simon? You have the floor.

MR. SIMON:

If I may. I think the answer is, yes. By the way, you're off by three or four orders of magnitude. My understanding of the legislation is that it was largely through the efforts of Bob Armitage and Robert Barr, who at the time was at Cisco, that the wording of 3A-I was changed so that it's "embodied in or otherwise inherent in the subject matter of." You get the concept that it doesn't matter, that it's some little corner of the chip that is buried between ten layers of

metal that's going to be very hard for somebody to figure out. The IT industry, in particular, was very concerned that about not wanting the idea that somebody could practice something for decades and not patent it and then be able to patent it by burying it in a chip. This is something that is technically possible.

MR. GARNER:

I think I asked about ten months ago: Does this effectively give you prior user rights since you put that chip out there first, so it makes it prior art?

MR. SIMON:

Well, it's prior art, so it's whatever it is as prior art in my view.

CHAIR:

I don't have a concern at all about you speaking with each other. Just identify yourself for the record. Anybody else who has an observation on this? I think this obviously brings up the questions: Does this amendment of the law overrule the seminal case of *Metallizing Engineering*? Such would have significant policy implications for the United States in regard to all private processes that can be operated inside a company for decades before an application might be filed. Question to the body. Does this overrule *Metallizing Engineering*?

MR. PEGRAM:

Question here, Ron. You just mentioned processes, and I think we have to distinguish here between products and processes.

CHAIR:

I accept the point, and so that's the question that I'm putting to the body for comment. Mel Garner?

MR. GARNER:

I think that's the purpose of it. As I understand this from talking to Bob, he wanted to take out of litigation those kinds of discussions about what the company did internally and what kind of preparations they made for sale (any of that sort of behind closed doors activity). It's only the publicly accessible stuff that would be prior art, so it was intended to do that exactly.

CHAIR:

If it is accepted as the premise that this was intended to overrule *Metallizing Engineering*, is that good public policy? Mel.

MR. GARNER:

It is, if you're interested in reducing litigation costs. I think what is coming out of this is part of what you see from the FTC and NAS reports about bringing economic considerations into patent law. This is one of those trade offs where there's an economic benefit to not litigating over these issues. That

drives the policy as opposed to what's in the interest of the promotion of science. That science should be promoted at an economic cost should be factored into whatever policy decisions we have. I think that that's where this comes from.

CHAIR:

Other observations? Larry Pope.

MR. POPE:

I'm not sure if it is intended to overrule *Metallizing*. I think if it is, it's bad public policy because the point was always to offer you a choice. You could either pursue a patent or you could pursue a trade secret, and you took the risks one way or the other. This seems to offer you the benefit of both. A company can use a process for many, many years commercially; keep it as a trade secret because it's internal; and then when it sees that the march of technology or other reasons has put its trade secret position at risk, then it files a patent application. I think that's poor public policy. There's the risk that the technology will somewhere along the line get lost or not get made available to the public, and so I think the choice that the statute has always offered should be maintained, which is: You want to go with the patent? Fine. You want to go with the trade secret? Fine. But make your choice and make the choice before you commercialize.

CHAIR:

Other observations? Mel?

MR. GARNER:

I don't mean to hog things, but it's the same policy that drives prior user rights. Prior user rights are essentially for someone who has decided they're going to use technology and keep it a secret. Yet, if you eventually come along and get a patent and disclose it to the public, you can never hold that person who kept it as a trade secret liable for patent infringement. So the bill, to the extent that it has prior user rights, and it has this definition of prior art, is intended to tip the scales against patent law and towards trade secret law. I see that as a direct policy choice that was made in the statute. I'm not saying I support it, but I think that that's what's happening.

CHAIR:

I'm asking. Do you support it? Not you personally, the body. Because that's what we're here to ventilate. What are the issues here that need to be assessed as to whether they are supported or not supported. Tom Field.

MR. FIELD:

Responding to Mel, I see a difference in burdens. A prior user might not have much trouble demonstrating prior secret use. A patentee, on the other hand, has to satisfy Rule 11 before suit can be filed and, having done so, might still have difficulty proving infringement.

CHAIR:

Other observations? Herb Wamsley?

MR. WAMSLEY:

I think there is a public policy argument on the side of overruling *Metallizing* in that there may be many reasons why the trade secret owner changes his mind and decides to file a patent at a later date. When he does make that decision, he is providing a benefit to the public by providing the disclosure, although belatedly.

As far as whether the bill does overrule *Metallizing*, I know that Bob Armitage wants to overrule it. As to whether the language clearly does overrule *Metallizing*, maybe that's something people should look at.

CHAIR:

One of the underlying principles I believe of *Metallizing Engineering* was inadvertent or perhaps intentional patent term extension effectively. So an issue that the body could discuss as well is, if using the trade secret route for a lengthy period of time and then filing for a patent application does not also achieve effectively a patent term extension. Dave Simon?

MR. SIMON:

Well, I'm in favor of the proposal and think the balance goes in the correct way. I can see some scenarios where this could become quite sensitive. You'll have to forgive my knowledge of the pharmaceutical industry—which I know virtually nothing about—but I can see the situation developing where somebody keeps the manufacturing process for, say, a key drug secret for decades; has patented the drug; their patent is about to expire; and they now go and file for the patent on how you make it. The generic who's been kept out of the market because of the way Hatch Waxman works—which I don't profess to understand—now may find themselves being kept out of the market yet again. I think there are—I don't have enough knowledge to understand how that plays out—but I could see some potentially very serious issues playing out on that.

CHAIR:

Other observations? John Williamson.

MR. WILLIAMSON:

I'm wondering whether this impacts at all the Supreme Court's decision in *Kewanee Oil Co. v. Bicron Corp.*[20] which said that trade secret law is not preempted by patent law because a reasonable inventor, given the choice of filing for patent protection or maintaining a trade secret on a patentable invention, would always opt for patent protection. I'm wondering if we're now tipping the balance in the direction of opting for trade secret and deferring potentially the opportunity to file for a patent. Are we not treading on some thin ice with respect to that Supreme Court decision and the potential that we could have a future decision that says that the patent law does in fact preempt the law of trade secret?

CHAIR:

Mike Kirk.

MR. KIRK:

My understanding is that, indeed, it's intended to overrule *Metallizing*. A couple of things I would like to say. One, it does, I think, move in the direction of making more objective the determination of patentability because it's either in the public, publicly accessible, or it's being held as a trade secret and practiced as a trade secret. So, that eliminates some potentially thorny issues in litigation.

Secondly, I think it must be kept in mind that the person who practices this as a trade secret does run the risk that if someone else later comes along and files a patent application, that trade secret is not publicly accessible; it is not going to be available to defeat that patent. So, someone practices a trade secret at their risk, and they could find themselves cut off.

CHAIR:

Mel? You've got a comment?

MR. GARNER:

They've got prior user rights, so they're still protected.

CHAIR:

Tony?

MR. FIGG:

I agree with the comments. I certainly think this language is intended to overrule *Metallizing*. The only way I can see that you could possibly say that it doesn't is where it defines "reasonable" and "effective accessibility." It says

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[20] Kewanee Oil Co. v. Bocron Corp., 416 U.S. 470 (1974).

"persons of ordinary skill." I've always interpreted that to mean the public, that component of the public who has ordinary skill in the art, not individuals. So, I think it does overrule *Metallizing*. Whether that's good policy or not, I think like all policy questions it's a balancing act. The loss of right provisions of Section 102, which this addresses, was designed to achieve the public policy of encouraging people to file patent applications promptly and thereby get their inventions into the public domain. We're losing that public benefit with this legislation, but what we're gaining in return is certainty in the value of a patent that will encourage people to invest in developing the invention that is protected by the patent. We are eliminating the burden on parties and the judicial system from litigation over these issues. I think most of the organizations who have looked at that balancing act have now said this is worth it. This is a good idea.

CHAIR:

Bob Rines?

MR. RINES:

Yes. What's the purpose of Article I, Section 8 of the Constitution? What's the whole public policy behind it? What is it that's made this country so great? It is that we put a premium on disclosure. Public disclosure. That's what America wanted. That's why we have that Constitutional provision. I think it's terrible thinking 200 years later for people, who I don't believe are the caliber of certain individuals who formed our Constitution, now to be giving supremacy to non-disclosure, in the name of corporate security, in the name of less litigation. What less litigation? This is the 300th anniversary of Benjamin Franklin, and he had a comment—a warning to us. It went somewhat like this: We all want freedom and we all want security, but if you put too much emphasis on security, you lose both. So, I don't think our objective should be to worry about litigation. It should be what's in our national purpose. It's what's made us great. Why do we have a Constitution? It is because we put a premium on a public policy of publication and disclosure. Why are we now proposing the rewarding of trade secret practice? It's okay to have trade secrets, but you take your risks. What are we doing?

CHAIR:

Professor Jepson?

MR. JEPSON:

I think the traditionally accepted argument is that one of the most common reasons why the trade secret holder decides to file for a patent is that the trade secret owner, being in the business, understands that he's about to lose that trade secret and therefore he'd like to secure that same technology now with a patent. So, he's not only extending the patent right, contrary to public policy,

but if we give him prior user rights, then he gets the same effect without even having to file for the patent application. Overruling *Metallizing Engineering* is probably a bad idea. And even though Bob Armitage suspects that this language does effectively do that, I doubt that the courts will necessarily go along with that. There is a 60-year gloss on the law which the courts could apply just by holding that *Metallizing Engineering* was the law when Congress passed the statute. Congress did not say that *Metallizing Engineering* was overruled and therefore this law incorporates, codifies, *Metallizing Engineering.*

CHAIR:

Dave Kappos.

MR. KAPPOS:

Thanks Ron. So let me take this for a moment from the academic to the way it actually works. We actually don't make our file versus not file decisions based on wanting to keep an invention a secret, and then wait until a competitor is about to file or might have come up with the same idea and then file it. The decision for us is actually made based on the cut that we use to determine whether something is worth filing or not in the first instance, and the invention is then filed, published, or closed immediately. We get literally tens of thousands of invention disclosures submitted in a large company that's producing high end microprocessors.

There are, to my knowledge, very few instances of inventors holding back on invention disclosures on the basis of wanting to preserve a trade secret. The decision is actually made based on the perceived merit of the invention at the time the invention is disclosed. So, it's those invention disclosures that we conclude are not worth patenting because the invention is not novel or only marginally novel. They probably, in our opinion, don't overcome the obviousness standard. What actually happens, as has been repeated time and time again, is that a party will overlook the filing of an application based on a decision that it's not worth filing because the invention is obvious. Later, another party will make the opposite decision; will file, and, lo and behold, going back to the discussion this morning, because of the issues with the patent system and the patent office, will actually get a patent. This creates a gigantic amount of leverage because of the late patent issuing, covering a process or system that another has been using for awhile without patenting, due to perceived obviousness not to patent that creates really an inability to have an effective challenge to the patent. For us, where the rubber hits the road is evaluating an invention disclosure initially received and making good filing decisions; that's the basis on which a prior user right would be effective.

CHAIR:

Jeff Hawley?

MR. HAWLEY:

The area of patenting of non-detectible manufacturing inventions is something that we could spend the next week, let alone the rest of the afternoon, talking about because it's one of those areas that has no right answer. One thing that Dave didn't mention in talking about the filing decision on a non-detectible manufacturing invention is whether or not you're able to enforce it or not. You don't get patents just because they cover your inventions. You get patents because you hope they cover somebody else's commercial activity. If it's on a non-detectible manufacturing invention, it's very unlikely that you're going to figure out that your competitors are in fact doing it and so you have this dilemma. You either publish it, patent it, and teach them how to do it, which our friends in Taiwan will take and run with, or you keep it as a trade secret and hope that nobody gets a patent on it later. But the enforceability of a patent on a non-detectible invention is a key factor in determining whether you file it or not.

CHAIR:

John Pegram.

MR. PEGRAM:

I would like to bring into this discussion the fact that under current law when you file your product application, you are required to disclose the best mode. Not everybody does it, but there is a requirement in our law. I think when we discuss this subject, we have to consider the fact that we're talking about jettisoning the best mode requirement at the same time. To the extent that today you might feel compelled to disclose even an undetectable manufacturing method—although I've been engaged in litigation and found that people don't always do that—there will be certainly less of a requirement in the future.

I'd like to shift the discussion very slightly to people like Phil Johnson and ask, is it somewhat different in your industry where the objective is to totally exclude the sale of a pharmaceutical for as long as possible from industry, as opposed to the semiconductor industry, in which there is a lot of use of patents for licensing purposes?

CHAIR:

The chair recognizes Phil Johnson.

MR. JOHNSON:

It's fine. I'm not sure I really understand the question though.

MR. PEGRAM:

One of the tensions about laws and rules is that some of the people who are in the electronics and software oriented fields, where there are many, many different pieces with different patent coverage, and there is a lot of licensing and cross licensing going on, are very successful in licensing of patents. That's one way of looking at patents and might influence you in one way, for example, to act as Dave Kappos has just said in connection with the undetectable manufacturing invention. In a pharmaceutical area where the real objective is to keep out the competition completely for as long as the patent can be enforced, would you act different with respect to non-detectable manufacturing inventions?

MR. JOHNSON:

Well, I don't know that I see a difference. First of all, I don't know that I buy the premise because, in fact, we do engage in a huge amount of licensing which may not be apparent—licensing in lots of technologies, lots of enabling technologies. In fact, some of our products, especially in the cutting edge area, have far more patent license rights involved and generate far more royalties than most people think. If you take just a simple biotechnology product, you have a tremendous amount of technology that is brought together. Perhaps not on the scale that Dave tells me are in the microprocessors, but nonetheless I don't think that people understand in today's world how much technology is involved. I don't know that we're fundamentally in a different position from the semiconductor business or others.

We sell products. There is actually quite a bit of competition drug to drug. There are how many statins out there that you have to choose from when you go to the doctor? People don't think about competition sometimes that way. Of course, yes, we are trying to keep our products from being copied and sold, as I suspect Intel or IBM would be against a straight rip-off of that technology. I doubt very much you'd be happy if it were duplicated in Taiwan any more than we are.

There is a great desire, it seems, to pit tech against pharma in the discussion. But actually, I've been warned, and I believe it that some of what tech is going through is what pharma will go through. Some of what pharma is going through, tech will go through. I keep drawing the analogy between where biotech was in the 80's and where tech is now.

MR. SIMON:

I have no idea what you're talking about. [laughter]

MR. JOHNSON:

But at least one of the Daves has suggested that there may be some similarities of how we might go about solving some of the issues that we see in

the Patent Office that way. I'm not sure I understood the question, but I gave you a full and sufficient answer.

MR. HAWLEY:

You've been deposed too much.

CHAIR:

Larry Pope?

MR. POPE:

I'd like to come back to overruling *Metallizing* from another point of view. I think one of the purposes of the patent system, that I think Phil brought up in our discussion earlier today, is to provide an incentive to invest in technology. That's one of the reasons you want certainty in patents, to attract entrepreneurial capitals. But it seems that in any *Metallizing* situation, that's really not a motive because they've already attracted the capital and commercialized the technology. They've made their choice. They are the manufacturer and so there's not a problem with whether or not they're certain that their later-filed patent is valid or not. I mean, it's nice that they're entitled to a patent, but I don't see the concern with the problem of the certainty of patents. If you're the patent holder and practice the trade secret commercially and then you file the patent, I don't think the rest of us have to be too concerned that there might be uncertainty with the validity of your patent. I don't think that's a justification for overruling *Metallizing.*

CHAIR:

Any other observations on the overruling of *Metallizing Engineering* before we move on to a slightly different subject? I think what we've heard—without trying to color it, because that's not what my role is here today—is that there is a significant policy shift here. I think that I've heard that from the floor. I think that there is a complexity in relating the overruling of *Metallizing Engineering* to the fact of prior user rights. I suggest that that be something that would be further explored in other discussions in other forums over the coming months. One underlying premise for the changes in Sections 102 and 103 is the implementation or providing the enabling implementation of first inventors to file. Leaving aside the merits of whether or not we should go to first inventor to file versus first to invent, if you accept for the moment that the premise for this is in part that the first inventor to file system would happen; is this the only way—that by 'this' I mean the amendments that are proposed in 102 and 103—to implement that? Is this an essential implementation means for implementing first inventor to file, or are there other approaches that would not have the difficulties we've just been discussing in terms of policy shift around such matters as overruling *Metallizing Engineering*? . The floor is open. Mel Garner?

MR. GARNER:

I think in terms of the definition of prior art, it's not necessary in order to go to a first inventor to file system. I think that what happened was we began initially to try to simplify the law. We tried to address some of the concerns raised by the FTC and the NAS. That sort of led to certain patent reform legislation. Then we took it a step further to say, "well let's see if we can work on harmonization." We got that little piece in with the first to file, and then it was, "you know, we could really make this thing streamlined and simple and address the issues of litigation cost if we go to a new definition of prior art." That's how these got an in. They're all not intricately interwoven, but they are pieces of a whole which seek to improve patent quality, improve harmonization, and reduce litigation costs. I think they are separate pieces of it.

CHAIR:

Other observations? Phil Johnson?

MR. JOHNSON:

I'd like to put this in the context of the bigger picture. To me, of course, the patent system is a pull system where what you're trying to do is encourage invention and investment in invention. Everything that stands between the time someone has an invention and the time that the patent on it gets enforced against someone else is a drag on that incentive. Ideally the perfect patent system would be one when the inventor has the invention and somehow instantly is granted the perfect amount of protection that is 100 percent enforceable, not too great, not too narrow. Obviously, we don't have that. We have something quite far from it. We have lots of things that can get in the way of good protection, just protection, for an invention. He could go to a patent attorney who is not too good, who does bad drafting. He could go to the patent attorney who makes mistakes in how he prosecutes and ends up committing inequitable conduct. Lots of things could come along. He could file too late. He could do lots of other things.

One thing that I worry about with the patent system—I think we all should worry about—is that right now significant sectors in our society and in our industrial society are worrying about whether the patent system is good enough to be any incentive at all. I'm not talking about the pharmaceutical industry, but I've heard that expressed from some sectors. That means to me that we have such inefficiency in the way the patent system is actually working; we may not be stimulating enough invention. So, I look at first to file when I look at some of these other questions. You have to look at it in a package to see if we are moving towards more efficiency.

Well, the definitions of prior art have to be taken in the context that they enable an opposition proceeding. The opposition proceeding may help drive

efficiency. It's also proposed in conjunction with the package that will change inequitable conduct, which I think a lot of people see as a drag on the patent system. Some of the other litigation aspects that Mel is talking about, am I completely happy with this? Am I troubled by the *Metallizing* discussion we've just had, or am I troubled by the question of whether the prior art of David's circuits is actually going to be there even though they may be embedded somewhere in the microprocessor? Yes, I am. But at some point, getting back to Dave's comment, we all have to be practical and, practically speaking, we've got to end up with an improvement over where we are now. I think that we should focus on that as we look at these individual points in the context of where we can get to.

CHAIR:

Other comments? John Pegram?

MR. PEGRAM:

I think that 102/103 aspect here is a very pragmatic proposal in an area that could be debated a lot. There's a lot of thought that's gone into it, and I think we're at a pretty good place. My greater fear is that we lose the strength of the compromises that are built in, in any tinkering that might happen going forward. So, I would suggest, that unless there is really any strong reasons, that we should not be departing very far from this proposal.

CHAIR:

Other comments? Dan Cahoy.

MR. CAHOY:

I think these—especially the comments that Phil Johnson made—are really important to think about in the context of whether we're improving the system. One of the rather surprising things to keep in mind is that the evidence that's been collected by economists and legal academics suggests that it's really hard to attribute precise gains to certain patent system models, whether in the United States or in Europe. So to make outright claims that this characteristic works, this makes our system good, or this doesn't work and we don't want to change, is a dangerous thing to do. Yet, ultimately, we have to ask these questions because that's the whole point of patent system reform. So, I believe it's important to keep in mind what the costs are, both on innovators and on society, and how we can try to maximize that within the system and probably get a more beneficial system.

In particular, to the extent that the certain changes will realign some of those costs with regard to disclosure, think about the impact that effects not only on initial innovation, which is what most of the discussion has been about, but also on sequential innovation, which is a primary purpose disclosure. Rapid disclosure is supposed to promote sequential innovation. Will these changes

reduce that by encouraging innovators to keep things secret for a little bit longer? It's possible. That's a cost imposed on society. The way that this is structured tends to force companies to internalize the costs. They have to essentially say, "we're taking a risk, and we're going to buy into that risk or not buy into the risk and engage in the patent system." So I think, on balance, from a societal perspective, perhaps it is better that we do force companies to internalize the cost rather than to essentially transpose them on society.

CHAIR:

Any other observations? I think we'll give Phil the last comment, and then we'll have a break, followed by the third rail.

MR. JOHNSON:

I agree with you, and I'll just close by saying what keeps me up at night. What keeps me up at night is part of my job. I sit on committees that decide whether or not a drug is going to be taken through full development and whether a billion dollars or so is going to be spent on it. These are sophisticated people doing sophisticated modeling. Of course, technical risk is always the biggest thing in the drug industry. You don't know if it's going to work, and you don't know what side effects might be found. The second part of the risk, more and more, is now the patent risk. There are drugs that you would like to see developed, that would be developed, if there was only technical risk and not the added patent risk, whether it be the risk of inequitable conduct or the risk of all of the other issues we're talking about.

What keeps me up at night is that one of those might be the drug that treats the next SARS, might be the protease inhibitor that treats the next mutation of HIV/AIDS, or any of the other things that we worry about. To bring this home, this is much more than an academic discussion. To me, this is a discussion about how efficiently our society can move ahead in developing technology.

CHAIR:

With that well said comment I should like to invite everyone to repair to the back of the room here where there are sodas and big fat cookies. We'll resume at 2:30 sharp with the third rail.

(Off the record for break)

VI. REFORM OF PATENT REMEDIES

CHAIR:

Shall we resume? We have saved the dullest topic for last because we knew so many people would have left and so forth. They didn't want to talk about this, but we've left one. An excellent speaker to lead off with our discussion of the topic of reform proposals for calculations of damages and injunctive relief: Tom Field.

MR. FIELD:

Thank you. Having taught the subject last fall and being a longtime fan of remedies, I find the issues interesting and welcomed the chance to take an extended look during my recent spring break.

Some may know that I filed an amicus brief in support of *MercExchange*.[21] That shows where I stand regarding injunctive relief.

Both the damages and injunction proposals seem to have been sparked by the *Eolas*[22] case, but I thought, particularly since the latter has been omitted from the bill, that the focus here was to be on damages. For those who might need them, I pulled a few things together for inclusion in your folders.

First, there is a bit of the *Georgia-Pacific*[23] case, including its list of fifteen factors that might be used to determine a reasonable royalty. Most were not used there.

Next, is the District Court's opinion in *Eolas*. That decision has since been reversed by the Federal Circuit on wholly unrelated grounds. Meanwhile, it appears to have spawned the remedies provisions in H.R. 2795. I can understand that Microsoft would be worried about the possibility of liability for damages once described as exceeding their annual R&D budget.

Finally, there's the proposed section from the bill and an excerpt from comments several law professors submitted to Representative Smith last summer. I pulled out the couple of pages related to damages.

One thing that seems worthy of attention is the apparent inability of patentees to get an accounting of profits or to disgorge a defendant's unjust enrichment. That is remarkable. Profits in that sense, not plaintiff's lost profits (generally called damages), appear to be explicitly recoverable for any other type of IP infringement, whether it be copyright, trademark or trade secret. Thus, only reasonable royalties serve patentees' needs, however inelegantly.

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21 eBay v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006).

22 Eolas Techs., Inc. v. Microsoft Corp., 399 F.3d 1325 (Fed. Cir. 2005).

23 Georgia-Pacific Corp. v. United States Plywood-Champion Papers Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970).

Another thing worthy of mention is the lack of attention to the issue in any patent study I was able to locate, including those summarized by Norm Balmer when he wrote an OTA report several years ago. In other words, no one seems to have become very excited about damages until Microsoft saw itself as being burnt in *Eolas*. Whether objective and informed observers would agree, I cannot say. Knowing that the district court's opinion had been reversed, I had no reason to study it.

In any event, I see no quick fix. The fifteen factors listed in *Georgia-Pacific* remind me of the four fair-use factors listed in Section 107 of the Copyright Law, and the many provisions that follow. I submit that, despite devoting about half of the 1976 Copyright Act to those provisions, "fair" is now no better defined than it was prior to that, and Justice Souter seemed to say as much in his *2 Live Crew*[24] opinion.

The *Georgia-Pacific* factors also remind me of those used to determine likelihood of confusion in trademark cases. Is it eight as listed in *Polaroid*[25] or twelve as listed by Judge Markey in *DuPont*?[26] Indeed, in the latter, Markey concluded with a thirteenth category—essentially anything else that seems relevant. Factors bearing on a reasonable royalty strike me the same way. I see no point in tinkering with the list in *Georgia-Pacific*.

CHAIR:

Alright. Fine. I thank you, Tom. I think the floor is open for discussion. This issue has been ventilated a lot between various industries. Let's perhaps let those industries begin. Who would like to start?

MR. SIMON:

Why are you looking at me, Ron?

CHAIR:

I was glancing around, but my eyes did fall on you. I don't know why. Dave, you have the floor.

MR. SIMON:

Okay. Thank you. There are a couple of fundamental issues that happen in the way patent law damages tend to work out in IT, and I'm talking about IT broadly. I'm not saying there aren't implications of this in other industries. I happen to agree with Phil Johnson that people have a tendency to oversimplify the pharmaceutical and biotech industries and say they're not high tech; I don't

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[24] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994).

[25] Polaroid Corp. v. Polarad Elec. Corp., 287 F.2d 492 (2d Cir. 1961).

[26] *In re* E.I. duPont deNemours & Co., 476 F.2d 1357 (C.C.P.A. 1973).

quite understand, but I know Phil thinks his company is a high tech company. When you look at the issues, there are a couple of issues that you have in our industry. When you look at our products, our products have lots and lots of components in them. The issues that we run into, they're really an amalgam of many, many things. As a result, you're subject to lots of people who claim you infringe their patents and to what we refer to sometimes as the royalty stacking provision. It is lots of people saying they're entitled to a percentage of your product. I've had situations where I've added up the percentages, and the percentages come out to more than 100 percent.

Somebody may come up with some improvement to a modem and claim the computer with the modem with that improvement. He then says, "because my claimed invention is the computer, my royalty base should be the computer." That is a serious issue because you may not be aware of the pricing on modems but modems are now down to under 50 cents apiece—you're now expanding the royalty base from a 50 cent piece to a say a $1,000 piece of equipment, then piling up on that.

The other issue is—and I haven't seen this in any of the debates yet, but I believe it's a fundamental part of the issue—that our industry is very dependent on networking effects. In other words, once something gets into something it's very difficult to take it out because lots of things start breaking. You have the issue that the court and the case law, as I understand it, seem to say that you make the decision about damages as to what a reasonable royalty rate should be from the standpoint of the time when the infringement occurred, as opposed to when we're making design decisions. What our costs at the time we're making the design decision creates a real fundamental issue because the cost of taking a feature out and potentially breaking compatibility or interoperability is enormous. The value of that is enormous, as opposed to the time we made the design decision when there were lots of ways to do it. We chose one. There were some benefits to it. There were some costs to it. Obviously, we picked what we thought was the best one, but the law says you take the value at the time the infringement occurs, which sometimes in our cases can be years after we first release the product. You have those two things that tend to get, in our view, and Professor Field may disagree with our view, what we think is a skewed damages system that gives overemphasis to one little piece of something that's a very complex product. So, that has been one of the criticisms of the various proposals from the, if Phil will forgive me, the high tech industry.

CHAIR:

Mel?

MR. GARNER:

I think before we launch into this there's something we have to watch. There's a difference between what a plaintiff claims and what the plaintiff ultimately gets. Much of the argument for this is, "I don't want people asking for large sums of money." Plaintiffs are always going to ask for large sums of money. If you look at a products liability suit, you see, "I want 500 billion," or whatever it is. Ultimately you don't get that. I don't think you can have legislation which guards against plaintiffs asking for stuff, so we should take that off the table. We need to look at what kinds of damages actually are awarded at the end of the day. We also have to separate out, in this discussion, those damages which you think are the result of fairness and those which are the result of lawyering. Because some lawyers are better than other lawyers, sometimes you will see a judgment that's higher than it should be just because one guy had better lawyers than the other. You can't legislate against bad lawyering or really exceptional, good lawyering.

When you actually delve down into the cases, they do take into consideration things such as royalty stacking. There are cases that talk about it and say, "the royalty can't be this high because all these other royalties are being paid." So, these kinds of issues are taken into consideration.

The other issue is, of course, entire market value theory; which is that if this is the element that drove the sale for the thing, then the base should be the entire value of the thing. A lot of times in the discussion, the part that's missing is that that is only the base. You then have to apply the royalty rate to the base to figure out the damages. It is almost axiomatic that if the base is really big, the royalty rate is very small because at the end of the day you've got to end up with what's a reasonable compensation for what you're doing.

There's another thing. Even though the IT community is treated as sort of a monolith, they're really very different businesses. Microsoft and Intel are not the same thing. What you have in Microsoft's situation is bundling. They make an operating system. They make a word processor. They make an internet browser, which was the subject of the case. They slap it all together, and they sell it as one bundle. So, when the court goes to figure out what the damages are, they have to use the whole thing that got sold because they aren't sold separately. There's no way to figure out what Internet Explorer is worth because they don't sell Internet Explorer. So, in part, it's the way the business is run. Intel's microprocessor is generally a microprocessor that runs a computer. You could make some arguments about whether they need video accelerators in there that they didn't need to put in there. They could be a separate chip and stuff like that but, there is still a good reason to have it all in the same package. So, now it comes to how you calculate damages between the two of them. For Windows, if there is a problem in Windows, some sort of security violation, I

guarantee you within a week or two every time you turn your computer on it will say there's an update and it will go somewhere and find a piece of software and fix it. It will be different than it was before. You can't do that with an Intel chip. Once you've got that chip in your machine, it's there forever no matter what anybody does. So, they really come from different places, although they happen to be locked together on this particular issue.

When we began negotiating—that's AIPLA, IPO, and various different industry groups negotiating this issue—we did some research into this, and we couldn't find a case where you could say it was improperly decided. Because we couldn't find a case, that wasn't the end of it. We thought that what we really needed to do was to try and address concerns that were coming from the IT community, and so language, somewhat like this, got in. The way it got in is, if you look at the *Georgia-Pacific* case, you look at factor 13. We took factor 13 out of the *Georgia-Pacific* case and said, if we codify something that already exists in the law, we won't be changing the law, but at least we'll be telling judges, "you need to think about apportionment when you get these kinds of cases where there's something that has lots of inventions." So, that seemed like a good idea.

Some of the language which is in the statute, which I saw as criticized when professors looked at it, such as "appropriate" and things like that, was put in there because we were picking factor 13 out of fifteen factors. We didn't want to say that's the only way you can do it. So, that's why we used the language, "Where appropriate and among other factors." You look at this because we were trying not to migrate the law from factor 13.

Another thing that happened in the process of our study of these cases is that we also looked at the entire market value theory. We said that in an appropriate circumstance that's probably a viable way of looking at damages. There are certain people who don't like it at all, ever. They essentially wanted it written out of the law in plain language, which would make sure that the entire market value is eliminated as a way of calculating damages. So, right now the debate is going on over such things as whether or not you say "inventive concept," "claimed invention," or stuff like that, which are not insignificant details as Dave mentioned. I was involved in an early case where—it had to do with cell phones and the invention was a filter that went in the cell phone and cost $10, at that time the cell phones were selling for about $200—the claim said a cell phone having a filter doing so and so. They wanted a royalty of $30 per phone for a filter that only cost $10 to make. Well, that's what they asked for, but ultimately the case settled, and they didn't get anywhere near that. You know, they got something that was reasonably related to the filter, but you can't stop people from asking for it. However, with a smart judge and jury, and with good representation, you'll get something that's reasonably related to it. In order to

make this a high priority issue for judges, the language that's in the statute now was proposed, and modifications of it are being debated.

CHAIR:

I think Bob was next.

MR. RINES:

Professor Tom Field mentioned the current *eBay v. MercExchange*[27] case currently before the Supreme Court on the issue of royalty damages versus injunction—it was just argued last Wednesday in the Supreme Court. The issue is just whether a patentee who sustains his patent and who is not a manufacturer or in competition with the defendant, is entitled to an injunction or only to money damages.

I was Julius Foster's trial lawyer back in the late 60's and early 70's in *Foster v. American Machine & Foundry*[28] which is the only case that eBay was able to cite for its proposition that they should be given a compulsory court-ordered license rather than give the patent holder an injunction. A shameful record to me. It shows you what a lousy lawyer I was—sustaining the patent at trial and on appeal, but being awarded only a compulsory license from the court, but for the past and for the future, and not even for all of American Machine & Foundry's customers that were continuing to infringe the Foster patent. But, the court set the limit on what it would be. Well, the miracle was, of course, sustaining the Foster patent in the Second Circuit. As some of you may be old enough to know, that was a "death circuit" for patents. When I appeared before the Court of Appeals they had a district court judge sitting by designation on the panel with two appellate judges, and he decided the case. He was so upset that there had been a finding of validity of the Foster patent, and he came up with the language at the hearing that said, "You ought to be satisfied you've got a half a loaf." The implication was strong: if I'd been the judge that day, you'd have received nothing. Well, you've got to see it in that context. That is why forced compulsory license is a very bad law; Foster was going to be in the business of licensing, he wasn't a manufacturer, and so had to take a compulsory court-ordered license.

I wanted to tell you that story particularly for the students. There's a lot you can't get out of reading cases. Just reading the decisions and concluding you know what went on is not always true. But, this was an extremely dangerous time in America insofar as patents were concerned. There was great hostility in many of the circuits to patents, which gave rise later to my founding the

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27 *eBay Inc.*, 126 S. Ct. 1837.

28 60 F.3d 815 (2d. Cir 1974).

Franklin Pierce Law Center and working closely with Judge Markey and the Congress to create the Court of Appeals for the Federal Circuit to take patents out of the hands of these Courts of Appeals of differing issues all over the country.

I wanted to share that with you because it is a coincidence, and merely to say, that I certainly hope we are not in the era of compulsory licensing and that the Supreme Court in the *eBay* case will not say otherwise.

I want to tell you how the master, who's been a friend of mine, Dana Raymond, struggled with this. Here's a case that the district court found was revolutionary. It was a way of welding pipe and doing it with high frequency energy to get the weld just where you wanted it. Foster was a patent lawyer. I first met him when I was in the military during World War II. We became fast friends, but he was also a good engineer. It so happened that American Machine & Foundry, through their Magnetic Heating Division, came upon the same idea and was doing a whopping business—this being the way you made pipes with welding along one edge. Well, the judge held in all the findings that it was a revolutionary invention. Then he came to the issue of what the defendant was going to pay Foster. There were almost 100 customer licensees of American Machine & Foundry that were buying the welding equipment and were also using the Foster method for making pipe. I know Dana Raymond struggled as a master as to what he was going to assess as a royalty, because the judge told him he wanted the royalty. We, of course, presented a case for what would be a fair royalty, such as a running royalty on pipe made by the Foster process claims and were still going to continue to be made in the future. It was very difficult for us to get evidence of royalties paid in this field. It was all speculation. There was no history in this art of any running royalties, anymore. That day had long since passed. We tried. I brought in a law school classmate of mine who was a CPA attorney, Paul Foley. We did a good job I think. I don't know, Tom, whether you agree or not when you reviewed this *Foster* case for your amicus brief in the *eBay v. MercExchange* case, but I thought we did a good job. The thing we could not control was the hostility of the bench in the Second Circuit. They were not going to give us an injunction. I think they had to make a case for this compulsory license, nothing willful, nothing done wrong, nothing except Foster was a little guy. This compulsory license is the only case cited by eBay in support of what it wants the law to be, namely, that if you're not a manufacturer and you're not in competition with the infringer, you ought to be content with the "half a loaf" of a fictitious paid-up license royalty, and no injunction should lie. Well, I hope that isn't the law in America, but thank you for the opportunity of presenting to you, maybe "the rest of the story," as commentator Paul Harvey would say, about that litigation.

CHAIR:

Page two. John Pegram?

MR. PEGRAM:

I would like to return at this time for a couple of minutes to some personal thoughts, which are somewhat conflicted regarding the way in which courts are to determine royalties and whether there should be legislation in this area. My own feeling is consistent with what some of the experiences that Mel Garner has referred to earlier, and I think others have had. This is a fact issue, and it depends so much on the case, the way it is presented by both parties. Also, I would add, we have a jury system, and if you let it go before a jury, there's a certain degree of uncertainty and a certain element of having to properly educate the jury. I have been on both sides of this issue and have strongly argued both sides of it in different situations.

I have one case that is currently going ahead to a damages hearing, but we also are at risk in the same case with the other party's patent. In that case we have so far been able to convince the judge to find the commercial success of the products was due to this invention. That's going to be very helpful in a damages stage of proving the royalties should be based on the entire product. On the other hand, our client is accused in the same case of using something for which there were five alternatives, and we have demonstrated successfully in a partial summary judgment that it is not a basis for people choosing the products. The judge has already ruled that if there is liability, then it will be dependent upon that portion which relates to the invention. I'll use that just as an example of the factuality that occurs in each case.

Turning to the proposed legislation, I note that the *Georgia-Pacific* case has now been around for 36 years, since 1970. It is a district court case that has been repeatedly cited because it does catalog the different kinds of factors that come into consideration in the evaluation of facts. I am very reluctant to pick one factor and legislate that one factor to the exclusion of fourteen others, therefore, I don't think that we should be proceeding with the proposed damages legislation. There's a second reason, and that is, that I think the proposed legislation is something that is not close to a consensus, and I am disturbed by the fact that that may hold back making progress on some other things for which there is a greater consensus.

CHAIR:

Tony Figg. Please—I'm sorry—Phil Johnson was first.

MR. JOHNSON:

I do think that this is a matter that's very factually grounded, but I've spent a lot of time thinking about this. Not as much as Mr. Simon, but a lot of

time nonetheless, and I think that there is a fundamental difference in the way people view what's proper in damages on both sides of this debate. I don't understand the complexities of microchips perhaps any better than David might understand those in biotechnology, but there are some common examples that have been used that seem to have highlighted, in my mind, the difference of approach. One of them is one that was cited to Representative Lofgren by someone supporting the tech sector proposal, and it was a reference to an example used by Mr. Dalton where he referred to the use of an inventive o-ring gasket, a simple ring of a rubber-like material that provides a seal in the space shuttle rocket booster. Apparently, Mr. Dalton suggested that rather than just claim the o-ring, that the o-ring should be claimed as a system claim in conjunction with the environment in which it's found, which was in the rocket booster. The tech sector proponent then concluded, "Clearly logic suggests it is inappropriate to reward the inventor of the new o-ring that cost just a few dollars at most for all of the prior art incorporated into the pre-existing multi-million dollar rocket booster." Now in that context I'm not sure how I should have taken that comment. Maybe others will be able to give me a better explanation, but it seems that the proponent was suggesting that the fair reward was a royalty based on the cost of the o-ring. To those of us on the other side of the argument, it seems you had an inoperative rocket booster that obviously did not function in the way intended, and there could have been a lot of different design alternatives that were taken. Indeed, I'm sure millions of dollars were spent to try to solve the problem. It might have involved a redesign of the entire system, a new space shuttle, new boosters. It could have been a ground-up problem that might have taken 5, 10, 15, 20 years to solve. According to the example we know, it is stipulated that the o-ring that they came up with was inventive.

Now, do I think the appropriate reward for that inventor is a percentage of the cost of the o-ring? No, I don't. Do I think it's fair that they would be able to argue to a jury, were this a fair market situation, that the o-ring provided a better space shuttle and that astronauts actually wanted to ride in this one in part because of the o-ring? Yes, I do. But I truly—because this is an example that was used in support of the contrary position—do believe that people of good faith, looking at exactly the same damages situation, may come to contrary conclusions. Would I preclude the people, who wanted to argue that the royalty only should derive from the cost of the o-ring, from arguing that to a jury? No, I would not. I would want them to have their day in court. I would want them to be able to bring in experts. I would want them to be able to argue about the cost of the o-ring if that's what they thought was appropriate, but I would not like to legislate the outcome, which is what I believe is being tried in some of the proposals.

CHAIR:

Thank you. Tony Figg.

MR. FIGG:

I thought I would share with you some of the thought processes that my organization, the ABA IP Law Section went through. Much as AIPLA did, we looked very hard at lengthy and serious debates about this issue and concluded that the courts already have the authority and the tools to deal with this situation. Unlike AIPLA, our position, which is described in Section 14 of our white paper, which is on our website, advocates no change in the damages statute on this point primarily because of the point that John made just a few minutes ago. There are fifteen factors that are described in *Georgia-Pacific*. You will undoubtedly send a signal to courts—district courts—that by codifying one of them, it is more important than the other fourteen. We did not think that was a good idea. So, our position, which has been communicated to Congress, is that there really need not and should not be a change in the law in this position.

Now having said that, I will also say that our task force working on patent law reform must have been reading Mel's mail or something, because we see that there is polarization on this issue, which could be an impediment to patent law reform in general. So, we've been thinking about whether there is some language that could help but would not go so far as what is in the draft legislation and would not overemphasize factor 13. This is language that our task force has come up with, "In determining a reasonable royalty, the finder of fact shall consider the value of the infringer's use of the invention and shall take into account the relationship between royalty base and royalty rate." We think that's what courts already do. If it's an o-ring in a rocket, if the value of that o-ring is enormous, that should be reflected, and it can be reflected both in the base to which the royalty is applied or the rate at which the royalty is used. If it's a windshield wiper on a car and the windshield wiper does not contribute very much to the overall value of the car, but nevertheless there is a claim to a car with that improved windshield wiper on it, then the court has the power either to treat the windshield wiper as the royalty base, which might mean you would have a relatively high rate, or to treat the value of the car as the royalty base in which you're going to have a very small royalty rate. That's the sort-of thought processes that our group has been going through, and it's been an evolving process as you can tell.

CHAIR:

Other comments? Tom Field?

MR. FIELD:

It strikes me that damages and injunctions are related in an important way. As Judge Markey said in *Fromson*[29], determining fair royalties calls more for the skills of conjurers than judges. Under the best of circumstances that is difficult, but it's unavoidable for prior infringement. I'm a fan of injunctions because they make such problematic assessments unnecessary for future infringement.

Another thing that strikes me is that the dropped injunction provision and the retained damages provision apparently, if ironically, point in opposite directions. The first seemed designed to give trial judges more discretion to deny injunctions, whereas the surviving provision seems designed to limit discretion with regard to determining reasonable royalties.

CHAIR:

Other observations? Jeff Hawley.

MR. HAWLEY:

Very quickly, I didn't bring the citation, but my favorite case on this topic is one of Judge Learned Hand. It's a New York Railway Car case I think is the name of it. It's the case where he says that some inventions spring full blown from Medusa or somebody like that. He essentially said that in situations like this where there are complicated products, you really can't do it. That was his final conclusion really. He said it's impossible.

CHAIR:

Dan Cahoy?

MR. CAHOY:

Regarding Tom's point that these two provisions are coming from two different points of view, I'm not sure that's true, because I believe all of this relates to scope. It's all about trying to get the judge or jury to recognize what the appropriate patent scope is and to make an award or impose an injunction based on that. The reason why these reform measures were undertaken is there is the perception that the judge has no discretion when it comes to injunction, but a great deal of discretion when it comes to damages. Too much discretion when it comes to damages, as Dave was intimating earlier, leads to awards that are objectively ridiculous, or at least have that potential. Whether or not that actually occurs, I think, is somewhat of an open question. But, I think the real issue here is, do you want to change anything? From what it sounds like in the discussion that we've had so far is that most of the proposals that are out there,

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[29] Fromson v. Western Litho Plate & Supply Co., 853 F.2d 1568, 1574 (2d. Cir. 1974).

including the current one in the current draft legislation, do little more than reiterate what's already part of the 13th *Georgia-Pacific* factor. In other words, it reiterates what courts are perceived to already do. So why make such a change? That seems to make no sense.

CHAIR:

Phil Johnson?

MR. JOHNSON:

I think that's a good question because the debate has gone from codifying *Georgia-Pacific* to some advocating that there should be a change in the damages law. I think a vast majority of people who were working on the compromise worked on it on the assumption that it was to codify *Georgia-Pacific*, but I'm not sure that is acceptable to the people who were asking for damages law reform.

I'd like to make one other quick comment, and that is, we all have to keep in mind exactly how this plays out in court. Seventy percent of the cases are tried to juries, and what actually happens if any of these codifications goes through is that jury instructions are then written. I would suggest to everyone at the table that the juries perhaps aren't quite as keyed on the wording as we are, and the jury instruction may or may not be available to the experts. There's plenty for experts on both sides to work with, and eventually the jury will hear, if not the statutory language, some reasonable facsimile thereof and then will go off and deliberate and probably use common sense as much as anything else as to what they think a fair amount of money is to award, almost regardless of which proposal is suggested. So, we have to keep that in the back of our minds as well.

CHAIR:

Mel Garner?

MR. GARNER:

Yes. This is more directed to you as to why we're doing this. I probably have less experience in this area than anyone else, that is, trying to work on legislation. I sort of got involved in this, maybe seven or eight months ago. What it seems to be is an attempt to get as many people backing something, as possible. Everyone has their own concerns, and so the larger group tries to accommodate the wishes of the others in order to get them into the process. I described this, somewhere else, as kind of like watching somebody make sausage. You start out with all these great principles and things you want, but then you sort of begin to mush and shape and do things that you, if left to your own devices wouldn't do in order to accommodate another group. So, some of these things, where things are being put into the statute which seem to be the law now,

are done to satisfy various interests. The interests are very wide. There are—certainly our Bar Association had its interest—the pharmaceutical industry, biotech, and the high tech industry. The university community has driven a lot of things. Some of the things about "grace period" came from universities. So there are all these factors, all these players, and they're all pushing. It's like you have this very small table and everyone is trying to stand on the table. As soon as one other guy gets on the table, somebody else falls off, and you're trying to figure out how you're going to get that one back up on the table. So, there are compromises.

CHAIR:

Dan Cahoy?

MR. CAHOY:

Yes, just one follow-up comment. Then I would ask, isn't there an inherent danger in making a revision to the statute based on the presumption that it's essentially codifying the existing law, albeit only part of the existing law, because isn't there the possibility that the courts and juries, through jury instructions and experts, will perceive that there is a reason for this revision? It will go in a different direction. Now, presumably, one is to understand that this is the most important provision. Is that a wise move? That's a rhetorical question obviously.

CHAIR:

Let me change the subject just a little touch. I think there's an undercurrent here of, are we doing a wise thing by going down this path? My question would be this, not to deviate from all the other things you were going to say, but just to add this to the mix. Assume *arguendo* that patent law reform is good. Just assume that. Is it good enough to justify whatever this thing might do? My question really goes to the question, is the difficulty with damages in the contemplation or in the reality? Do we perceive a problem that may not actually exist in fact, such as to drive us to this juncture where it's conceivable that patent law reform would be stalled over this issue? So, that's the kind of additional point I'd like to suggest that people think about. Phil?

MR. JOHNSON:

I think that to the extent that the damages reform was suggested as substantially altering the recovery that was available to patentees; for many people who are involved in the patent law reform debate, it was seen as the rest of what was coming in patent law reform wasn't worth hurting one of the fundamental rewards of the system. Therefore, I do believe that failure to come to agreement is likely to keep us from getting patent law reform. I think almost everyone involved in the process feels that unless the IP community is aligned on patent

law reform, it's very unlikely to pass. Not that bills won't be proposed and hearings won't be had, but basically it is not seen as a partisan issue. It's seen as a non-partisan issue which will be passed only if there's general alignment amongst the stakeholders in the area. In that sense, I think it's a shame.

The bottom line of my question is, if we were just trying to codify what already exists, I think we would already have a deal. But, I think some stakeholders want to substantially reduce the value of damages that are available to a successful patentee, at least that's a perception. With that perception, I think patent law reform right now is stalled.

CHAIR:

Herb?

MR. WAMSLEY:

I want to be clear on where things are, or where I think they are. It's not just a question of whether the version of the damages language on the page numbered 20 in this paper is going to go in the bill or whether people think it is a codification or something else. The various parties have a number of different proposals for language besides what's in this book, and a number of different interpretations. It's really more complicated than you might know from reading this paper. I agree, the legislation is stalled right now. Unless some version of the words emerges that everyone coalesces around, it may continue to be stalled.

CHAIR:

Okay. That perhaps is exactly the question I was raising. We all know that the injunction piece has slipped out of the bill. Suppose the damages piece were to slip out of the bill, what result then? Mel?

MR. GARNER:

At a town meeting that AIPLA, FTC, and NAS had, I think it was last June, a lot of the speakers talked about the various good features of the bill. I think one speaker said that the bill is 62 pages long, 60 pages of which are a very good bill, but there are two pages where many people have problems, where the dispute lies. So, I think the legislation itself has a lot of very good things in it, and if we were to choose to cut back to the core issues that are in the bill, you could probably get a lot of people to agree to it. However, people are not ready to give up their wish list at this point in time. So, we're going to debate, and we're going to dispute over those other two pages of the bill until such time as people say okay it's enough, or I'm never going to get it, and yet the other 60 pages are good enough. But, for right now we're not there, and it's not likely that we're going to get there in this session of Congress.

CHAIR:

Any other observations? Yes. Larry Pope.

MR. POPE:

I would suggest that the damages provision probably isn't that important in the end because it's going to be a highly factual matter when you go back into the district court. The guidance isn't that clear. Even when district courts have clear guidance from the statute or their appellate courts, they manage to get it wrong and go off in a different direction. So, I think it's still going to be a fairly open field on damages. I'd just say that if it were to drop out of the bill, in my observation, it wouldn't be that important. If it's important to get the bill through, and some people who would support it won't support it without the damages provision, that's unfortunate, but I think it's a good bill and it addresses a lot of very important things. I think it would be a shame, for instance, to hold up reforming inequitable conduct. I think that's a crucial part of the bill that shouldn't be held up. It's something that should be addressed as soon as possible, almost immediately. I think another very important part of the bill that shouldn't be held up, and that the whole Patent Bar should see as positive, is eliminating at least some of the secret prior art problems that we've had by going to "first to file" so that a more reasonable assessment can be made for the businessman and the venture capitalist, as to what is and what is not patentable and what patents are and are not valid. These are very important economic decisions that have to be made. This bill advances the certainty. You'll probably never be certain, but it greatly improves the certainty with which you can give advice on those topics. Those are things I think are important to be done as quickly as possible for the benefit of the economy and the benefit of the future of technology, and they shouldn't be held up for this damages provision. The damage provisions are probably not that mandatory or that clear.

CHAIR:

Michael Kirk?

MR. KIRK:

I think realistically, let's be honest, what is a core issue depends where around this table one is sitting. I find it hard to believe that Dave Simon is going to home and say, oh, I have seen the light. It –

MR. SIMON:

I was hoping it would be the other way, Mike.

MR. KIRK:

So, the legislation is stalled; it will likely remain stalled until the two major tech industry groups can come to an agreement. If they don't come to an

agreement, it will remain stalled. If they can come to an agreement, then we will see some very good legislation move forward.

CHAIR:

Any other observations? Jeff Hawley.

MR. HAWLEY:

Well, I think that there were three provisions in the proposed legislation that are essentially, if I can use the pejorative term, "anti-troll" provisions. One has dropped out, as we've noted, the injunction, the change to that. Secondly, we've talked about it a little bit today, and that's the damages. The third one is the willful infringement change that's in the statute. My personal view is that the change to the willful infringement scheme of things is the most important of the "anti-troll" provisions, and I personally would be very disappointed to lose that because we can't come to agreement on the other two. On the other hand, I think that the troll situation is a difficult one. It's a difficult one from a public relations standpoint. It's a difficult one from my position with my weekly letter from somebody or another who wants money from me that I don't have. I, personally, don't think that the injunction provision and the damages provision are the solutions to the troll problem. I think that the willful infringement provision helps, but I would hope that we would give some thought to what else we might do to prevent a distortion of the system by off-shore subsidiaries in the Abacos who send you letters, and you can't even find out who they are.

CHAIR:

Thank you. By the way, the reference I was making was picked up by Jeff, not to include the willful infringement provision in regard to things that might drop out. Phil Johnson?

MR. JOHNSON:

I think there have been some other provisions either suggested or in the bill already that have been suggested as provisions along these lines. Jeff, the venue position is certainly one of them. It's been suggested that that's maybe not a complete cure, but I think everyone does believe that it may help keep some companies from getting jurisdiction in places that are perceived to be too patent friendly. I think that there are other provisions that have been put in that have been intended to help provide something to the tech sector, such as the repeal of 271(f) in at least one of the versions. Of course, the big question mark is whether the Senate will be proposing a "loser pays" provision, which is really one that would be focused at frivolous allegations. I am constantly reminded, however, by those who are politically far more savvy than I am that even if proposed, this may meet opposition from other quarters outside the IP community that would make it unlikely to pass.

CHAIR:

Other thoughts? John Pegram.

MR. PEGRAM:

Since we are in the "other thoughts" phase, I just would raise the question of the proposal for dealing with inequitable conduct. It has popped up several times during the day, and if we have the time, it might be worth asking ourselves and each other whether this is what is proposed in the current legislation and whether it is an appropriate cure. Does somebody have a better idea?

CHAIR:

John, let's do that. I think we have approximately exhausted the issue here today. I don't see any great movement coming, so we'll hold your thought for a moment and ask everyone if there is any desire to discuss at all the injunctive issue or shall we just wait for the "Supremes" to tell us what the law is? John Williamson.

MR. WILLIAMSON:

Ron, maybe a fresh thought about the injunction issue. Bill Hennessey and I had a conversation at the break. One of the issues about tinkering with the injunction, as was recognized by the Supreme Court, is of course once you deal with limiting injunctions, you're into the area of compulsory licensing. We are governed by a treaty known as TRIPS because of our participation in the WTO. TRIPS, as everyone knows, allows compulsory licensing. But Article 31 of TRIPS has some very significant limitations on compulsory licensing, which really haven't been thrown very much into the dialogue regarding toying with our laws on injunctions. Those limitations are not, in my view, particularly favorable to some of the positions that are being advocated by those who would like to see the injunction law changed. One of which, is that the compulsory licenses must deal with situations where the product is being supplied primarily for the domestic market. That's not the case for a lot of folks who are advocating changing the rules on injunctions. Another one, which is sort of a back door, is that the compulsory license shall be subject to termination once the circumstances that give rise to the compulsory license are no longer prevalent. So, for example, in the *MercExchange* case, if the Supreme Court decides it is appropriate not to issue an injunction on the rationale that MercExchange doesn't practice this technology, and if subsequently MercExchange does practice the technology, then TRIPS dictates that you shall revisit the reason for which the compulsory license was issued, and in my view, would dictate that the compulsory license would have to be revoked. eBay would find itself one, two years down the road in the same problem, perhaps a bigger one. So, I think the inter-

play with TRIPS and our obligations internationally need to be more carefully thought out before we start tinkering with our laws on injunctions.

CHAIR:

I saw another hand? Larry Pope.

MR. POPE:

A real brief one about how the jurisdiction and the injunction interplay. I think there's a real concern about whether or not an injunction gets stayed pending appeal. It becomes a greater concern when we have very broad jurisdiction, and there are certain jurisdictions and I'm not shy, I'll mention Marshall, Texas. We've got judges that are likely to grant final judgment and enter an injunction; and if it's not stayed; and you know that he's not going to stay it; and if the Federal Circuit's not going to stay it; and the statute doesn't provide for protection; you may never see an appeal because an enjoined party cannot stand the injunction. They'll settle, and they'll never take the appeal, which is a very unfortunate situation. So, if we don't get some relief on the jurisdictional side so that these certain U.S. District Court judges can't set up fiefdoms of very favorable patent jurisdictions, then we do need to look at the other question of whether or not we have compulsory stays pending appeal in the Federal Circuit.

CHAIR:

Phil Johnson?

MR. JOHNSON:

In a former life I had the pleasure of representing people who were enjoined, and you learn a lot when that happens to you. One of the things, of course, is you learn that you can go to the Federal Circuit if the district court declines to stay your injunction. The Federal Circuit, over the years, has become far more liberal at granting stays pending appeal. Of course, the standard includes requiring a showing of a likelihood of success in the appeal. Although, I do think it's an area where there's some possibility for some reform. David and I actually have floated a few things that caused us both to lose a considerable amount of credibility with our immediate colleagues, but we still hope that someday we'll be able to convince them of the error of their ways.

MR. SIMON:

Yes. In the meantime we'll have several stripes more taken off our back for reiterating it.

CHAIR:

Any other real confessions? Seeing nothing more and realizing that the "Supremes" have this under advisement, perhaps we should move to John Pegram's suggestion for the remaining 20 minutes of our time, and any other top-

ics that any others would like to bring up. John, would you like to pose your concern?

MR. PEGRAM:

Well, just very simply: it strikes me, and it has stricken many other people, that the idea of handing over to the Patent Trademark Office the policing of inequitable conduct has two major problems. One, the Office is already burdened in other ways and would not be able to handle this in an appropriate way. Secondly, we could never actually take away from the courts the possibility that they would exercise their traditional equitable responsibility and power to say, "No, this case has been brought to us with unclean hands." Albeit that standard is probably a higher standard of fraud.

The view I expressed earlier in the meeting was that maybe there is some other way to address this and to move away from the duty of disclosure, which we have only here in the United States. To move towards a regime that I would accomplish, not by eliminating the presumption of validity, but by moving to the type of presumption provided for under our evidence code, which essentially is called a "bursting bubble," which the Federal Circuit has accepted for laches issues. The Federal Circuit has taken the presumption of validity out of the "bursting bubble" rule, although I don't think Congress ever enacted the presumption of validity with that in mind. But, if we went to the "bursting bubble" theory, then the patent would be presumed valid as to what the examiners examined. I would suggest a standard similar to that of the reexamination law. If something raises a substantial new issue, then there's not going to be a presumption with respect to that. The cure for the party would be to go back and raise that issue with the Patent Office; if they wanted to come into court and have an instruction that they have a presumption of validity.

CHAIR:

Other observations in regard, for the moment, to the issue of inequitable conduct reform? Mel Garner?

MR. GARNER:

Although this issue has sort of migrated over time, the way I understand it and now the current position AIPLA supports is that, number one, you would change the standard for inequitable conduct in a court proceeding to "but for." So, unless the claim was found invalid, and you determined that it was only allowed because of the inequitable conduct, then it would be an issue. But more importantly, it would move the decision—not only the decision, but all the litigation having to do with inequitable conduct—to the end of the liability trial. So, that while people always say there's inequitable conduct, you wouldn't be able to plead it, prove it, or do discovery on the issue until after some claim had

been found invalid at the end of the day. At that point, you can then raise it in a subsequent proceeding. For those other situations you could refer them to the Patent Office, but the Patent Office wouldn't be obligated to do anything. They could say, "That's nice" or "Pay me a $25 fine" and do nothing. So, the real benefit of the change in the legislation is to move inequitable conduct out of the average, garden variety patent case, because 95 percent of them settle. So, 95 percent of the time and effort spent on inequitable conduct today in litigation would go away.

The same thing is done with the willful infringement where willful infringement is only pleaded after liability has been established. Since most of the cases are going to settle, that goes away too. This is part of the trend towards reducing the expense of patent litigation so that all parties can have a better access to the courts.

MR. PEGRAM:

Just to be clear, I agree with the putting it at the end of the case. The thing that I strongly question is to start something up in the Patent Office.

CHAIR:

Other observations? Tom Field.

MR. FIELD:

Having taught administrative process for over 30 years, I have no enthusiasm for giving inequitable conduct back to the PTO. As the First Circuit said in *Digital Equipment Corp. v. Diamond*:[30] "While a determination of patentability would have required resolution of some disputes of a technical nature . . . the inquiry would have been in many ways more straightforward than the one undertaken here. Moreover, it is with regard to such matters, and not with regard to ferreting out 'inequitable' conduct, that the PTO possesses unique expertise." Perhaps influenced by that; the PTO later got out of the fraud business. I favor that and firmly believe that allegations of fraud are best resolved in formal court proceedings, not in "informal" agency proceedings.

But, that is not to deny need for improvement. When questions arose last summer in *Purdue* about whether an examiner was misled by a term used during prosecution, I was reminded of *Raquel v. Educational Management Corp.*[31] After it was held there that a copyright owner had made a material misstatement to the Copyright Office, that Office issued a statement that the Third

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[30] 653 F.2d 701, 726 (1981).

[31] 196 F.3d 171 (3d Cir. 1999).

Circuit's views were at odds with longstanding agency policy. When the Solicitor General brought that to the attention of the Supreme Court, it vacated and remanded.[32] So, I wonder whether, and if so how, the PTO might play a similar role in some, presumably limited, set of cases.

CHAIR:

I think there is an observation here that can be made and that is it is always helpful to get granularly into the proposal. We're hearing that there are variations or various parts of this proposal, some of which perhaps have stronger support than others. Mel? Or was it Tony? I'm sorry.

MR. FIGG:

I guess I'll get "granular" at this point. Again, I'll acquaint you with the position that the ABA-IPL Section has taken and how we got there. By and large, we're very much in favor of the legislative proposals on inequitable conduct, and again, that's reflected in our official White Paper on that.

As to John Pegram's concerns about putting inequitable conduct in the hands of the Patent Office, the original legislation proposals, as everyone knows had some fairly extensive and detailed police squad provisions that would allow extensive investigations and substantial monetary penalties. Those have been removed, and what's in the legislative proposals, now I think, are much more tolerable. There is one part of the current proposal with which the APA-IPL Section has taken exception. The proposal is: once fraud has been established, once the "but for" standard has been satisfied and it has been proven that at least one claim of a patent was procured by fraud and would not have issued but for the fraud, there still is an additional requirement for having that patent declared unenforceable. That requirement is that the fraud has to be attributable to the owner of the patent. So, if the patent attorney committed the fraud, and the owner was ignorant of that or the current owner is ignorant of the fraud that was committed during prosecution, then the patent is still enforceable. The IPL Section has concluded that it doesn't like that. It's a bad idea for several reasons: it encourages cultivated ignorance; it discourages communications between the lawyer and the client who is the owner of the patent; and perhaps most important, it permits enforcement of a patent that was procured by fraud; it permits a sort of gamesmanship; it permits purging the fraud by transferring the patent to a bona fide purchaser without notice. So, this is an area where there is some disagreement, and I just thought I would highlight where ABA-IPL Section came out on this particular issue.

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[32] 531 U.S. 952 (2000).

CHAIR:

The old, "It's smart to be dumb?"

MR. JOHNSON:

In my mind this is another provision that has to be considered in the context of the overall bill. The real practical solution to misstatements, omissions, and advocate's positions taken during *ex parte* prosecution would be a vigorous opposition proceeding. If you think about it, there's not the same kind of duty of candor when we get out into the courts, and the reason is because the adversary system is so effective at drawing out the important evidence and arguments from both sides. There is, I think, a pretty good argument that if the opposition system were vibrant enough, you, could forget about it because these issues would be brought to the Office's attention. Any questions as to the improper advocacy or withholding would be brought to the Office's attention and would be disposed of in a fair opposition proceeding, one way or the other, and that that should be the end of it.

CHAIR:

Other observations? John Pegram.

MR. PEGRAM:

May I inquire whether Mr. Johnson would support the idea of permitting opposition at any time during the life of the patent or whether he would agree to a window after an accusation of infringement has been made? Or, does he have a way of making it possible that people could address that issue within the limited period after the issuance of the patent that's in the current proposal?

CHAIR:

Phil Johnson, do you wish to respond?

MR. JOHNSON:

Sure. Are you referring to whether I'd allow an opposition *after* the already adequate nine month period in the proposed bill? We should consider balancing the fairness of the public against the fairness of a patentee in relying upon a patent that's been examined, granted, and put up for opposition once. Recognizing that a fair amount of investment goes into developing a patented technology, I liken it to there being a plot of land on which you are seeking to build a building, and you have gotten title to the land. Your claim has been made public. It's been put up for anyone to come forward for a period of time. What is the rationale for not encouraging everyone who might have a contention that there isn't clear title to come forward initially, and why should we encourage them to wait? Should we allow them to wait until the foundation is poured? Until the building is built? Should we allow them to wait before they come

forward with their claim on the title to see whether the building is fully rented? Or how the rents are doing? Where I come out on that is that the system should encourage the disclosure of information and determination of any question of the validity of patents at the earliest possible time. I support the filing by third parties of prior art, very early in the examination process. I support the bringing of oppositions that might disclose any flaws on the title to the patent—the validity of the patent—at the earliest possible time and anything that allows someone to lay in wait and bring those claims years later after decisions have been made and investments have been made, I think, is contrary to the public interest and contrary to the purposes of the patent system. Though, I certainly would consider any reasonable alternative that might be consistent with the overriding interest of encouraging innovation in this country.

CHAIR:

Are there any reasonable alternatives that might be consistent with the overriding—seeing none, I think we shall call this meeting to a close. I want to thank all of you for the—we'll give Heinz Bardehle the last moment here—but I wanted to thank all of you personally for coming on a Saturday, spending your Saturday with us, and ventilating a great many issues. I'd have to tell you in choosing the topics we chose for this day, we specifically considered two of the topics that have come up in the last 20 minutes and left them aside because they were, we thought, perhaps not quite so controversial at the moment as the ones we chose to take up with you. However, perhaps three years from now or less; we shall resume these debates, and we'll have the same issues before us. Let's hope not. Heinz? You have the last word.

MR. BARDEHLE:

Excuse me lengthening the meeting, but I must express a wish in favor of your delegation of your USPTO. We are under a certain attack from some sides to go back with our efforts for harmonization to WIPO. You know, the whole thing was handled by the WIPO to come to the conclusion of a treaty. Then it turned out that the developing countries blocked the procedure made and made so much obstruction for years that finally, in a certain despair, it was decided in a group of industrialized countries to take things into our own hands. Now we have a move in that group, why shouldn't we go back to WIPO? These are delegations who really do not want harmonization. So, all those delegations who really want harmonization need from home a certain support that they should go ahead. That's also the case for your delegation and your Patent Office. They should hear from us that we are in full agreement for the idea of harmonization so that they should go ahead in this group in order to come to a treaty. There are several countries who want that very urgently: France, Germany, Japan, Australia and Canada, and, of course, USA. So each of these

countries needs a certain support from home that they should go ahead. That's my wish, that you express that to your own delegation.

CHAIR:

You've just made that presentation to the people here who can do that. Again, I thank you all. I hope that you have found this useful. We don't do this every year. This truly is supposed to be a major issues conference, and so it doesn't occur every year. We would expect that it would occur in the next two or three years, and I genuinely hope that we do have different issues to talk about next time. I wish you all a very safe return home.

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