FEDERAL TRADE COMMISSION

I N D E X

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PANEL ONE

9:30 A.M. -- 12:00 NOON

PATENTABLE SUBJECT MATTER -- BUSINESS METHOD AND SOFTWARE PATENTS

Mark Janis, Professor of Law, University of Iowa College of Law
Brian Kahin, Director, Center for Information Policy, University of Maryland
Jeffrey Kuester, Partner, Thomas, Kayden, Horstemeyer & Risley, Atlanta, Georgia
Jeffrey Kushan, Partner, Powell, Goldstein, Frazer and Murphy, Washington, D.C.
Rick Nydegger, Shareholder, Workman, Nydegger & Seeley
John R. Thomas, Associate Professor of Law, The George Washington University Law School, Washington, D.C.
Robert Young, Chairman, Center for Public Domain, and Chairman, Red Hat, Inc.

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PANEL TWO

2:00 P.M. -- 4:30 P.M.

PATENT CRITERIA AND PROCEDURES -- INTERNATIONAL COMPARISONS

Kenneth J. Burchfiel, Partner, Sughrue Mion, PLLC
Mark D. Janis, Professor of Law, University of Iowa College of Law
Stephen B. Maebius, Partner, Foley & Lardner
Rick D. Nydegger, Shareholder, Workman, Nydegger & Seeley
Robert L. Stoll, Administrator for External Affairs, United States Patent and Trademark Office
John R. Thomas, Associate Professor of Law, The George Washington University Law School

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In the Public Hearing on:)
COMPETITION AND INTELLECTUAL)
PROPERTY LAW AND POLICY IN) File No. P022101
THE KNOWLEDGE-BASED ECONOMY.)
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Thursday, April 11, 2002

Room 432
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

The above-entitled matter came on for public hearing, pursuant to notice, at 9:30 a.m.

APPEARANCES:
WORKSHOP CHAIRPERSONS:
MICHAEL BARNETT, FTC
MATTHEW BYE, FTC
JILL PTACEK, DOJ
MAGDALEN GREENLIEF, PTO
HILLARY GREENE, FTC

P R O C E E D I N G S

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MS. GREENE: Good morning. Thank you all for joining us. Exceptional panel, lots to discuss. Let me just jump in. The question is I guess on a certain level, why are we even here? Yesterday we had two incredible sections that dealt with substantive patent standards as well as patent procedures. And I guess Bill is asking, why are we here, because he was in charge of the entire day, so maybe he'd rather be home, but no rest for the weary.

The answer is in part because business methods, and to an extent software more generally, is something that really has become a lightning rod for discussion about patent issues generally. It carries a lot of symbolic importance, and it carries a lot of actual importance. We really need to figure out what's at stake when folks are discussing business method patents and come up with widely contradictory assessments.

We have a great group of panelists here. Thank you all for joining us. And we have our panelists not only here but I'll just say in passing that we have panelists who came before you, because our hearings have been going on since the beginning of February, and some of you folks have already joined us and been on

other panels. And what we're able to do is to incorporate what we learn along the way and hopefully weave it back in in subsequent sessions. So, I really do appreciate that where we are today is informed by all the hard work and all the information you've given us already.

Also, I'll just make a plug for our website, ftc.gov. Any of the public comments that we get get put onto the website, and those are read very closely, and so if folks want to respond to anything that they hear today, that would be a great avenue by which to do so.

In terms of logistics, my name is Hillary Greene, and I'm the Project Director for IP here at the Federal Trade Commission's General Counsel Office. And to my right is Bill Cohen, who's the Assistant General Counsel for Policy Studies. And we have Douglas Rathbun, who is from the Department of Justice. Next to him is Bob Bahr, who is from the Patent and Trademark Office. Thank you, both.

The panelists, as I was discussing just a minute ago with Bob, are what I like to think of as the people that make my life easy, because they're the ones that we go to in order to have a lot of really tough judgment calls explained, et cetera. And so let me go

through and describe a little bit about the extraordinary folks we have here.

First is Mark Janis, and Mark is a Professor of Law at the University of Iowa College of Law, where he teaches and writes in the fields of patents, trademarks, unfair competition, IP and antitrust. In 2000-2001, he was the recipient of the University of Iowa Collegiate Teaching Award. He has published several articles on domestic and international patent law and is the co-author of a two-volume treatise, IP and Antitrust, with some folks we may have heard of, Hovenkamp and Lemley. Prior to joining the Iowa faculty, he practiced patent law with Barnes & Thornburg in Indiana.

Next we have Brian Kahin, and Brian directs the Center for Information Policy at the University of Maryland, where he's a Visiting Professor in the College of Information Studies. Active in the early multimedia industry, Brian was among the founders of the Interactive Media Association, where he served as general counsel until 1997. During that time, he also founded and directed the Information Infrastructure Project at Harvard School of Government. From '97 to 2000, he served as the senior policy analyst at the White House Office of Science and Technology.

And then to -- where is -- where did Jeff go? Oh, hi. It's going to kill me with having two Jeffs. Two Jeff Ks make it worse.

Jeff Kuester is a partner with the patent, copyright and trademark firm of Thomas, Kayden, Horstemeyer & Risley in Atlanta, Georgia. He is currently an Adjunct Professor at Georgia State University College of Law, and he is currently the Chair of the Patent Legislation Committee of the IP Section of the ABA. And as a member of the State Bar of Georgia, he also is serving as Chair-Elect of the IP Law Section.

And next we have our next Jeff K, Jeff Kushan. He is a partner with Powell, Goldstein, Frazer & Murphy in their Washington office. Prior to joining Powell, Goldstein, Jeffrey spent over ten years with the PTO, including a two-year assignment to the Office of the U.S. Trade Representative in Geneva, Switzerland. And before serving in Geneva, Jeff worked in the PTO's Office of Legislative and International Affairs, where, among other things, he authored the Patent Examination Guidelines governing software. So, you obviously have nothing to say. And he is also a member of the Adjunct Faculty at George Washington University.

And then we have with us Rick Nydegger. And

Rick is a founding shareholder of Workman, Nydegger & Seeley, which specializes in IP law. He's currently an Adjunct Faculty Member at Brigham Young's Law School. He has worked closely with the PTO in the development of several important policy initiatives over the years, including he was the principal author of the AIPLA's Response to the Commissioner's Request for Comments on Computer-Related Inventions. He is currently First Vice President of the AIPLA and was recently inducted as one of its fellows as recognition for outstanding service.

Next we have Jay Thomas, and Jay is an Associate Professor of Law at George Washington University here in D.C. He also serves as a Visiting Fellow in Economic Growth and Entrepreneurship at the Congressional Research Service as well as an instructor at the PTO Academy. Previously, he was a visiting scholar at the Max Planck Institute in Munich and at the Institute of Intellectual Property in Tokyo, and he previously clerked for Chief Judge Helen Nye of the Federal Circuit.

And lastly, we have Bob Young, who is the co-founder and formerly CEO and Chairman of Red Hat from '93 to 2000. Bob was responsible for the early success of Red Hat. Red Hat is credited with driving

the global, industry-wide adoption of open source development practices. For this work, he has been the recipient of prestigious honors, including the Business Week Magazine's Top Entrepreneurs for 1999. In 1999, he founded the Center for the Public Domain, a nonprofit foundation that supports the growth of a healthy public domain of knowledge and arts, and he was chairman of the Center until 2002, when he founded Lulu.

A little more logistics. We are going to have four short presentations. They won't all be in a row, and these are meant to be starting points for discussion, targets, if you will. I really want them to spur discussion. They're not meant to be comprehensive or discuss both sides of all issues. And we should have a small -- a short break about halfway through.

For those of you who haven't been here, turn your table tent like this if you want to have us call you. And Jay Thomas has informed me that he's just going to leave his tilted up, as with Jeff and Jeff.

Now, one of the things that's discussed, Ed Kitsch refers to it as linguistic confusion, and that is used to describe what many others have also commented on in terms of the indiscriminate use of the

word "monopoly" to describe a patent. And the question that Kitsch raises is, is there really disagreement there, or is it just confusion about the language being used, and that type of thing? And this is really a challenge that we have in these cross-disciplinary debates. And it's very pernicious to effective debate, because it really undermines our ability to distinguish when we don't understand one another and when we don't agree with one another. This general admonition is not only something to keep in mind, but it seems like it's particularly relevant here.

When I spoke to the panelists and invited them to come to discuss business method patents and software, some of them asked, well, what do you mean by business methods, or some said, there is no such thing as a business method patent, and that type of thing. And so my response was, well, what should I mean? And towards that end, we're going to start off with Brian Kahin, and his presentation will discuss in part what does business method mean.

Then we are going to turn to the relationship between business method patents and software patents, and obviously embedded in all of this is the $100,000 question about are they abstract ideas, et cetera, and should they be patentable. All right.

MR. KAHIN: In fact, although I can't answer that question, that is exactly what I'm going to talk about.

First off, I guess we're picking up on the theme of uncertainty that we were discussing toward the end of the day yesterday and talking about it at a very high political level. What are business methods?

See, here is the director of the PTO in an interview in Harvard Business Review, the premier forum for the country's business executives, in an interview entitled, "Can you Patent your Business Model?" And he answered that, "We distinguish between a model, which is a general vision and strategy, and a business method, which is a specific way of doing business."

Then he goes on to, of course, talk about nonobviousness, utility and novelty and enablement, leaving the business community with that single sentence, that they do indeed distinguish, although he suggests you might want to consult an attorney if you'd like to find out how.

He's not afraid to take on the patent -- the mainstream bar as well. In an interview in the O'Reilly Network with Tim O'Reilly, he asks, "How would you feel if a lawyer was able to business -- to patent an argument," and he doesn't basically have any problem

with it as long as, of course, it meets the statutory criteria.

Now, State Street Bank, which Jay will talk about in greater detail, of course, says that this business method exception never properly existed, and it also, however, does not really explain what it was, some general but no longer applicable legal principle perhaps arising out of the requirement for invention that was eliminated with the 1952 Act.

Now, this is -- what State Street does from a practical perspective is it overturns the expectations of 100-150 years of business practice, practice based on free competition. But what is it more precisely or how does Judge Rich come to this decision? Well, he looks to the legislative history. He looks to Congressional intent and finds that it's not proper to read any limitations into Section 101, and he, of course, cites the language from the committee report that was picked up by the Supreme Court in Diamond v. Chakrabarty.

However, Diamond v. Chakrabarty involved new technology. The use of -- the creation of life forms to eat bacteria -- or bacteria to eat oil spills, rather, was not a technology known at the time of the 1952 Act, whereas the rule against business methods was

established hornbook law. There was also no discussion at the time of the 1952 Act that Congress intended to change the law with respect to business methods.

But it turns out that Judge Rich is actually something of an authority on Congressional intent. In 1963, he delivered a speech, the purpose of which was to explain the intent behind the 1952 Act and the roles played by the actual authors and the Congress. Now, this was in a sense a way to respond to the famous colloquy on the floor of the Senate in which Senator Saltonstall asked if the bill was intended to enact any substantive change in the law or only codify it, and Senator McCarran answered, it codifies it.

At the end of Judge Rich's article, he quotes Representative Crumpacker, who says if you're looking for the intent of Congress, you would do well to look to the writings of Federico, Rich and Harris and the others, because they really knew what was meant by the bill. And in fact, Judge Rich was, along with P. J. Federico from the Patent and Trade -- or it was then the Patent Office, was one of the two-man drafting committee that drafted the original bill.

Now, despite the fact that this was an ill-conceived exception, we still have to deal with it, because a year after State Street, the American

Inventors Protection Act was enacted, and in August -- it was enacted in November. In August, as part of a compromise to secure a first inventor defense -- and as I understand it, that's not really a first inventor defense, it's prior user rights, you don't have to be the inventor and you don't have to be first -- but this was limited in a political compromise, according to Howard Coble, to the State Street Bank case. And the reasons were, as elaborated by Representative Manzullo, that it was not equitable to subject people who thought that their business practices were unpatentable and had maintained them to trade secrets, it was not fair to sort of change the rules in midstream here.

Notice that he says, "Before State Street, it was universally thought." So, in this -- in recognition of this pioneer clarification of the law -- pioneer clarification, is that an oxymoron or does it mean the first of many clarifications?

Then we have a late legislative history on the first inventor defense which is quite a bit broader in its interpretation. This includes manufacturing. In fact, there are two separate statements by a Senator and a Representative that make you think, since they were exactly the same, that somebody had a very clear idea of what business method should mean, and it should

include manufacturing. Coble's remark was actually two days after the remark in the previous slide.

So, what does the PTO think? Well, business methods are really just automated financial or management data processing methods, technical stuff, and in fact, this is really just a change in the format, that business methods like using a cash register have been around for many years. They've simply been claimed differently. And this is just inevitable. It's an inevitable result of progress.

The AIPLA report on business method conflates business methods with software. It says we already dealt with software with the Advisory Commission of -- Report of 1992, and the issues are the same.

The IPO's statement on business methods, well, it doesn't define them, but it does suggest that these are emerging technologies, when, in fact, the whole thrust of State Street was to change the rule on long-standing technology. Certainly the PTO version of business methods argues that it is a long-standing technology.

Now, I have got some questions about this. This is a statement that was approved unanimously by a 50-member board twice, saying that Congress should not touch this. I'm curious, because I'm -- I find it hard

to believe that U.S. industry really wants innovation and competition at a general level managed by lawyers, courts and a federal bureaucracy. When you look at what individual companies have said on the rare occasions where they have not voiced their views through a trade association, presumably might have thought about it a little more, "With the advent of business method patenting," says IBM, "it is possible to obtain exclusive rights over a general business model which can include all solutions to a business problem simply by articulating the problem."

And GE says in Europe, "We do not want the lifting of the technical effect requirement," which is very close to the distinction between patentable and unpatentable business methods in Europe.

European opinion? Well, here is the summary from the UK Government's consultation, which shows clearly that the weight of industry feeling is against business methods. Are UK executives fundamentally different from American executives in the way they feel about business methods? The statement from the European Patent Office I think makes it fairly clear that it's a difference in disciplinary background, societal and financial relationships, not the stuff of engineering, not associated with the natural sciences.

Now, another way to understand this is to look at software, and I'm not going to go into this in detail, but here are some of the reasons why software is different. Fine granularity, it's a complex product, and innovation is notoriously incremental. But also in software, there's this huge range of granularity, from code to concept, and business methods are really at the high end of that. It's hard to distinguish between whether one-click patent is a business method or a high-level software concept, user interface concept.

Network effects, of course, are typical of software. They are not really a problem in business methods. The problem in business methods is breadth, coarse granularity, it's at the high level, abstraction and breadth, not technology in the usual sense, but may preempt technological implementations. This is the crux of IBM's position. They don't want business methods. They don't want people sitting around in conference rooms thinking up business methods and preempt their opportunities to invest a lot of R&D money in software solutions.

Just noting that low barriers to entry are similar in both cases, but the documentation issues are quite different. The documentation problem with

software is an over-abundance of information.

In Europe, the line tends to get drawn around technicity, and this is an EPO press release from August of 2000 that I think is a bit stricter than the standard enunciated in the EC's recent proposed directive. I did want to flag the term "social processes," which is introduced in that proposed directive as a way to talk about business methods and beyond with no technical contribution.

Conclusions? I think it's very important to define competency. From an institutional perspective, you can't expect one agency to cover everything, and that's essentially what the State Street decision has put the PTO in the position of doing.

I think that the competency needs to be linked with the "person having ordinary skill in the art" standard. We do have a mechanism in patent law for identifying the field of innovation. It's difficult to apply outside mature technological fields, and of course, the Patent Office may not approach it rigorously. It will be applied rigorously only in litigation.

However, it ignores -- a fundamental problem of the PHOSITA standard is it ignores the growing reality of team-based innovation, that innovation nowadays

comes increasingly from multi-disciplinary teams, and this would be particularly true for business methods understood broadly.

At the same time, however, we have this low nonobviousness standard for combinations that was discussed yesterday, and in my view, this dual standard ought to be eliminated, and we ought to be willing to draw lines around patentable subject matter. And I say this recognizing that this is a chronic policy problem in an age of porous boundaries, that it is hard to maintain lines. But the alternative is to swallow the world, and I don't think that's what the patent system should be doing.

Thank you.

MS. GREENE: Thank you, Brian. That was very interesting and very provocative. One event that I wanted to add to your chronology was that Brian actually was the first person to organize a public event on software patents, and that was for the MIT Communications Forum in 1988. And I'm curious about when you were holding that conference, would you have anticipated that the debate about software and ultimately business methods would be where it is today?

MR. KAHIN: That's easy to answer. No. There was certainly no reason to suspect that we were going

to be dealing with business methods today.

MS. GREENE: Now, the definitional -- you presented a number of definitions regarding business methods, some inconsistent, et cetera. What are we supposed to draw from that, and what do other people draw from that?

MR. KAHIN: I don't think we can draw anything from it at this point. I think it would -- it's ripe for some kind of authoritative definition. One thing that is worth pointing out in terms of the difficulty of this debate is that in an earlier version of the American Inventors Protection Act, there was, in fact, a provision for a study by the GAO which could have given some definition to this problem. Now, my understanding is that that was removed at the behest of the Patent Bar or perhaps IPO, I'm not sure which.

MS. GREENE: Jay?

MR. THOMAS: I believe that the definitional problems are overstated. It seems to me that if you go to a college campus and are asked to decide whether the course is in marketing or differential equations or high-temperature superconductivity, that -- or low-temperature, I should say, you would be able to figure out which part of the campus to wander to in order to attend the class.

We already have to make the decision, because the First Inventor Defense Act tells us we must, and the reality is the PTO has to define every invention that comes through the door. In fact, it does have a universal encyclopedia of all fields of endeavor and has to slap things into particular categories so they can match the expertise of examiners to that subject matter.

Also, the Berman-Boucher Bill offers a definition, which was sort of met with a muted response by the patent bar. It just said, well, we still can't do it. There weren't a lot of discussions about the particulars of that definition, which I think was certainly at least a good start and perhaps answered a lot of these questions. So, I've always found that to be not a robust explanation for why we're not trying, and I would also say some hard things are worth doing in any event.

MS. GREENE: Jeff?

MR. KUSHAN: I have -- I don't know if I've suffered, but at least I've listened for a long time about the definitional question. And I often am reduced to being way too practical in terms of trying to imagine the patent examiner sitting inside the Patent and Trademark Office at his desk and looking at

an application and sitting there with this imponderable question of, what is this, when ultimately it doesn't really matter what it is, because we have to evaluate what the claims are, whether there are discrete steps that are required to be practiced, and then whether those discrete steps that make up the process are in the prior art or not or whether they are reflective of what is perceived by the inventor to be the invention and how would we measure that.

And I think part of the problem with the business method definitional debate is that ultimately, if you draw a line, us evil patent lawyers will immediately circumvent it by putting words in the claim to mask what the invention is, to make sure it fits into the boundary you've just defined. And it's not a fruitful path for tackling the fundamental problem, which is to make sure that patents, when they come out of the Patent Office, or if they come out of the Patent Office, have a scope which does not distort the business environment, where you have a true innovation that merges different types of disciplines so that there's never been before that technique or process used in the marketplace.

We want to make sure that, you know, there should be no free riding of that invention, and

ultimately we get things moving forward as technology and, you know, the convergence of technology and business.

The task that, you know, given the environment of the PTO examination process, there are only so many things that can be done well by the Patent Office. And to the extent that we can keep the examination process focused on the measurement criteria of inventiveness as opposed to the definitional criteria of eligibility, the likelihood is that you'll have a lot more patents coming out that people will not be upset about. I mean, people get upset about these patents that come out that have, you know, you have a beautiful picture painted by the inventor saying, this is the coolest thing you'll ever see, and then you look at the claim, and you look at what they just described, and you wonder what's the connection. There is no connection, because they omit all the things that make it cool.

Now, if you were to get patent claims coming out of the Patent Office which people had a matching of the coolness with the claim scope, no one would be upset. And that's ultimately the challenge for getting the patent examination process to produce that level of satisfaction. You know, I have some of this in my talk, so I don't want to preempt anything, but it's an

important thing to look at when you're looking at what the Patent Office can produce relative to public expectations.

MS. GREENE: And Jeff will be giving a presentation towards -- later on in the session. And one of the reasons why we're addressing this up front is because ultimately one of the questions becomes the extent to which if you don't have this eligibility criteria up front, whether or not subsequent evaluations can sort of do the job and tease out that which is not novel and obvious and that type of thing.

Let's see here, Mark?

MR. JANIS: I guess I was a little surprised by Jay's remark regarding the -- how robust the definitional question is. I tend to think that it is pretty robust, actually, just for a couple of reasons. I just think it imposes an awful lot of costs on the system when we try to draw these kinds of lines and then attach serious consequences to them, you know, the proposed legislation that says if you fall into the category of a business method, lots of bad things will happen. And that's going to generate a lot of ancillary litigation over this preliminary question of whether you're a business method or not.

And the history in this area is bad. If you

look at 20 years of debate over software patents and what was an algorithm, what was a mathematical algorithm, what was math, there were tremendous costs sunk into that question. And I look at those cases and wonder, you know, gosh, was it really all worth it, or does this tell us that eligibility just really is a -- is very clumsy as a discriminator and other doctrines would do better?

So, I tend to be hesitant and pretty suspicious about the notion that we ought to try -- it may be that ultimately we could come up with an elegant definition of business methods, but I just think that the costs entailed in getting there might not ultimately be worth it. And I just harken back to all the debates that we saw initially over software patents in thinking about that.

So, I guess when I listened to Brian, I was thinking that the definitional question is exactly the point, that is exactly the right place to start. He didn't say very much about the specific language of the proposed bill, the HR 1332, but as you look at the language in that definitional section, I can see big problems there, or I can see lots of opportunities for litigation there.

You know, for example, part of the definition

says, "any technique used in instruction." That would be a business method. Well, I can -- almost anything would be a business method, I think, under that definition, even sort of conventional technical processes that we've thought for a hundred years were eligible subject matter. So, the main point here is that I just -- I really wonder whether trying to place so much pressure on an eligibility criterion is the way to go as opposed to looking to other doctrines, obviousness, enablement and so forth.

MS. GREENE: Thank you.

Rick?

MR. NYDEGGER: Yes, I agree, and --

MS. GREENE: Can you all speak into the mike, and also I forgot to tell you, our court reporter has asked you to identify yourself the first few times you speak to make life easier.

MR. NYDEGGER: Rick Nydegger.

I agree with much of what Professor Janis is saying. I think that the definition of business methods is terribly important, because I think it's really tied to what I think is a very important question in terms of what is it exactly that's bothering us about the patent system? And I think it's one thing if you talk about business methods in its

broadest sense, which might encompass all kinds of different things, not tied at all to computer technology, methods for teaching golf or sports activities, methods for chemical processes for producing pharmaceuticals or any almost unlimited variety of different things, which seems to be in some respects the scope of the term as it was introduced in the Berman-Boucher bill back a year or two ago.

On the other hand, if what's really bothering people is related to the idea that we are now struggling and dealing with something that's a relatively recent development in the sense of e-commerce technology -- that is to say, where once we were transacting business in a very conventional way using paper and transactional methods that involved human interaction, today, all of that is occurring increasingly through the medium of the internet, using computer networks and computer technology -- well, if it is the concept that those kinds of electronic transactions, some of which are now the subject of patenting, are things that are bothering us, then I think it's important to define business methods in that context, so that we understand what it is that is troublesome about the system.

So, failure to adequately look at and define

that term I think tends to really obscure the problem that one is dealing with, and it is precisely for that reason that I think the definition is terribly important.

I think the other thing that is maybe worth noting is that it seems like whenever we talk about this whole issue of business methods, we in some respects end up passing like ships in the night, depending upon whether we're focusing -- and this gets back to a comment that Professor Janis just made -- whether we're focusing on the question of patent eligibility in the first instance or whether we're focusing on the question of the ultimate inventive merit or contribution that's made by the business method. And there's a lot of confusion it seems to me in the discussion, the debate, that is surrounding this whole area about those two fundamental concepts, and I think that the policies that come into play in those two respects, again, are very, very different.

On the one hand, with respect to Section 101, the policies that drive that section, it seems to me, are and ought to be liberal. We ought not to exclude in the first instance entire classes of new technology as opposed to testing those in terms of inventive merit.

MS. GREENE: Thank you.

Robert?

MR. YOUNG: Bob Young.

Rick, you just triggered one of my real concerns with the whole concept of the Patent Office. And it just came up reading -- who's the Chairman, Muncy, is it? -- his comments on the growth of the patent industry. Twenty years ago, we were patenting 66,000 items; today we're patenting 175,000 items per year. Any of you guys have an average cost of what it costs to patent something? Is there a number in the industry?

UNIDENTIFIED SPEAKER: $25,000.

MR. YOUNG: $25,000, 175,000 patents, works out to, what, something in excess of a $3 billion industry to file patents. I think just the reverse. I think we have to have patent legislation that is extremely conservative as opposed to liberal. We should avoid patenting things unless we can prove economically that there is a value to us as a society for awarding that patent.

The drug companies who spend huge amounts of money inventing the drug, even bigger amounts of money building the factory to produce the drug, and then even bigger amounts of money getting that drug approved

through the FDA process, deserve patents to make a return on that investment.

Software companies, Mark Ewing in my Red Hat company that we started on our credit card balances, absolutely did not deserve to get a patent on the various pieces of software that we wrote as part of our product. It just -- it would have cost us more, dramatically more, money to register those patents and defend them, than it would have cost us to produce the technology around the patents.

So, in order to avoid this growth industry, this $3 billion industry pushing for greater and greater patentability, I think we have to write legislation that goes the opposite direction.

MS. GREENE: Bob was referring to Chairman Muris' speech, which we have up on our website. And it was given during I think the ABA meeting in November. So that's still online if you want to find that.

I'm going to have just two last comments here. I'm going to let Brian respond to sort of what he started. And then I want to have Jeff take this up, because one of the things that Brian mentioned in his presentation was IBM's comments about business method patents making it possible to obtain exclusive rights over a general business model, and that could include

all solutions to a business problem. And I think that really sort of dovetails with Rick's question of what is it here that's bothering us.

So, Brian, can you turn to more of the definitional questions, and then I'd like Jeff to actually give a presentation which goes directly to the questions of the impact on businesses. And then we'll switch gears there.

MR. KAHIN: Well, partly I wanted to respond to Jeff's statement, which I think would apply -- this Jeff -- this Jeff, the other one hasn't had a chance -- if the test was just novelty. But the problem is the test is nonobviousness as well, and this is a very expensive test. And I think we have reason to think it's extremely expensive for software because of the prolific nature of the industry. There are a lot more innovations to separate obvious from nonobvious, and there are problems in evaluating the prior art.

So, I think Bob's aiming at the application costs to get a patent, that is, the filing fee and the lawyer's fee, is only the tip of the iceberg, and that, as has been pointed out repeatedly here, the real costs of evaluating patents don't surface until you get into a dispute, and that's where the money really starts flowing. We don't know how that money flows between

the time the patent is issued and the time it ends up in court.

The court -- the figures on litigation, which I cited a month ago, are that for a case in which less than a million dollars is at stake, the average costs per side are $499,000. Those are AIPLA's figures from the economic report.

What we don't have here, and I want to take issue with Mark now on the -- where do we concentrate our resources? What we hear from the patent bar is you concentrate your resources on determining these four factors, that that's the priority. So, there's no engagement -- I'm sort of surprised to -- and gratified to hear Rick at least defend looking at the definition of business method, because there's no willingness there to engage economic differences among technologies, why business methods are different, why software is different. Because there's no willingness to engage, there is no dialogue within the patent system that connects to economic reality.

MS. GREENE: Let me let Rick respond and then we'll turn to Jeff Kuester's presentation and comments.

MR. NYDEGGER: Thank you, Rick Nydegger.

I also wanted to make a comment very quickly about this notion that, quote unquote, "business

methods" are somehow uncoupled from technological advancements. I think, again, that that is a common misperception that exists. I think it's possible that patent claims can be written in a way in which those claims are probably so broad that they do uncouple from technology. But on the other hand, it seems to me that that gets more to a problem of patent quality and the ability of the U.S. Patent Office to carefully and thoroughly perform its statutory duty of examination and issuing patents that are quality patents and that are valid and sustainable.

A case in point, an example, I suspect that word-processing software, for example, or an operating system software such as Windows might well be viewed as a so-called business method, because those things are used extensively in conducting various kinds of business planning in different ways and through a whole variety of different kinds of operations. So, the question is, are those kinds of software completely uncoupled from technology? Not necessarily.

For example, there are ways of rendering characters that get to be very, very technical, display sampling or sub-pixel elements and those kinds of things. And what this tends to do is to illustrate again that I think it depends upon the environment

you're operating in and the claims before the Patent Office as to whether that claim truly is a well-known business technique or whether the claim is something that really does start to represent a new technological advance not found in the prior art.

MS. GREENE: Thank you.

Jeff Kuester?

MR. KUESTER: Thank you, Hillary.

I'm very honored to be here, included in this great bunch of folks.

MS. GREENE: We have you in the southern corner.

MR. KUESTER: Yeah. It is with great pleasure that I am here and am able to participate in this. I think these are very important hearings, and hopefully you're getting a lot of good information out of this. And the comments I've heard so far I think are advancing the discussion quite a bit. I do have a few comments that I wanted to respond to Jay, because he, of course, touched a hot button of mine, which is the definitional issue as well, and I know he's spent a good deal of time on it. But it is certainly an issue that I don't think we can sweep under the rug at this point.

First, responding to your question about

industry, I wrote a law review article not too long ago with Georgia State Law School on this issue of business method patents and did some research and looked around and tried to see, you know, is there really good evidence of industry impact either way. And of course, it's still very early. I'm particularly interested in hearing the results of the study that's due to come out end of this year I think the Yale University President's involved with, right?

MS. GREENE: National Academy of Sciences, yep.

MR. KUESTER: -- National Academy of Sciences, that will hopefully shed some light in this area, because to this point, my experience has been that there's just a bunch of colloquial assumptions, broad assumption-based reasoning in this area on both sides of the argument, that it's simply, "Oh, well, patents are good for innovation because they always have been," or, you know, "These are different from everything else we've ever seen, so -- there's no evidence -- so we need to, you know, rethink it."

Those types of arguments, and there are quite a few of them like that, are still without any substantive, actual impact evidence from my perspective. I mean, from a patent attorney's perspective, it certainly resonates with me that, you

know, we've seen advances in technology before, broad new areas, and the patent system is set up to be sort of subject-matter-blind with respect to some of the lines we're trying to draw right now. And consequently, I'm a little bit skeptical that, you know, the sky is falling, and there are antitrust problems and competition issues with yet another new area of technology that the patent system has always been able to handle.

But by the same token, again, that's just anecdotal, you know, reasoning, not based on, you know, what's really happening out there. Is this spurring innovation or not? So, while I wish I could answer your question affirmatively -- my heart says that this is good for the economy, it's good for our society in general, for patents to be in this area if properly tailored and of the correct scope -- I think it's very difficult for anyone to speak without making some broad assumptions economically, based on the evidence I've seen so far. But again, that could change. Maybe we'll get -- you know, the latest, greatest study will come out and say, you know, clearly business methods are different from everything else, and their societal impact is so small compared to the cost they have that we just need to restrict them somehow. But I just

haven't seen that yet.

Regarding the definitional issue, you know, the PTO has said for a while that they've been issuing, you know, these patents for decades. Yet the court says, you know, that it's been universally accepted that you can't patent them. So, I think Jay's first pointing to the Patent Office and saying that the definitional issue is fairly straightforward, you know, they're doing it already, I think that causes question in that area. If they think they've been issuing them, but the court says, no, you haven't, then there is some question right there between, you know, what really are we talking about here? Is this something that's been around forever but the court says no? Who's right?

The Berman-Boucher Bill I do think was an excellent start. Whoever drafted that definition did a wonderful job trying to move the ball forward, but as was said by some others on the panel here, there are some big problems with the definition still.

I think the extreme ends of the definitional question are fairly clear. I've used the example before, if someone were to call me up and say I want a patent for the way my secretary answers the phone for me, you know, she always say, well, you know, who's calling first, and then she says, you know, if it

answers no, then she asks who it is, you know, that seems fairly straightforward that that's a business method. It's something used in business. There's not much technology involved, though there is a phone system involved, so now we're, you know, heading down the technology road a little bit, but that seems to be at one end of the extreme. It seems fairly businessy, and it just feels that that would be covered by something we would call a business method.

On the other end of the spectrum, of course, you've got drugs and door locks and automobile engines and things that just feel very unbusinessy. But when you start getting in the middle, particularly when the internet gets involved, when you start in software, immediately you get into a very vast, confused area of no matter what words you try to attach, you know, businessy or whatever other characterization you want to attach to the words. And I agree with Jeff Kushan, it's -- you know, patent attorneys -- I think you said us evil patent lawyers -- are very good at figuring out how to throw in some technical-sounding words, and all of a sudden it's got a technical effect, or, you know, take out the businessy sounding words, and all of a sudden it doesn't sound businessy.

So, trying to attach words to this thing we're

calling business methods is, I think, a very difficult task. The AIPA defense, frankly I don't think it's going to get used very much. Congress was certainly reacting, as was pointed out earlier, to what seemed to be a surprise. I know personally when I read through the State Street decision, I saw the section on business methods and thought, what does business methods have to do with State Street? And I kept reading and thought, oh, now I see. It finally made sense, but immediately that jumped out to me as an area that I wasn't expecting.

I was expecting to hear, you know, mathematical algorithms, they're still patentable if there's a practical impact or a practical result, and then all of a sudden, and oh, by the way, business methods are patentable, too.

But then it -- once I got to thinking about it, well, you know, yeah, it is sort of a business issue, and it's in software, so they -- it's good that they took that issue up and I guess it was ripe for consideration. But the AIPA defense that was created in response to that decision was -- still lived in a very small area of patent law. If you dive into it, you will see these are types of prior uses -- which I agree, it's not a first inventor defense, it's a prior

use -- that are not prior art. If there's prior art that's there, then you're just going to invalidate the patent.

So, you're talking about activities which are not prior art that have been around more than a year, used in business commercially, that they can prove, so we're talking about a very small -- and it's nontransferable, it just happens to be that defendant, who happened to be using it already for more than a year noncommercially and it wasn't prior art -- I mean commercially, and it wasn't prior art somehow.

So, I don't think we're going to be seeing a lot of litigation trying to figure out what the definition is. It would be good if the court came out and told us, but I just -- I don't see it. There hasn't even been a case asserted yet, I haven't even seen one, and it's been out for a couple of years now at least. So, I think we're still sort of adrift in a sea of uncertainty in terms of what business methods mean, either statutorily or if the Patent Office or another regulatory agency were to try to go in and say, you know, everything's okay except for these business method things.

They'd need to go into pages and pages of definitions, and then would we be better off after the

pages, because then you start having to define the terms you've just used to try to define the term you started out trying to define. It just -- the patent law itself is going through quite a bit of difficulty in that area right now, and just what do words mean in the claims, and do you go to the specification and different areas. And it seems, you know, defining what we mean, what are these terms, I don't think can just be, you know, shifted under the rug like Jay was trying to minimize it.

MS. GREENE: Right. Well, defining the words, on that point I'd just like to say I'm very glad we have a patent attorney officially sanctioning the use of the word "businessy," so I --

MR. KUESTER: I am like my own lexicographer, so I'll take that one.

MS. GREENE: Now, the other thing I wanted to ask you about is what your heart is saying. You say that your heart says that you think business method patents are promoting innovation. I suspect -- and then you mentioned generally, plus the information that I've seen or the evidence that I've seen.

MR. KUESTER: Right.

MS. GREENE: You know, if we assume for the sake of argument that neither side of the debate can at

this point point to any empirical evidence that's, you know, iron-clad, et cetera, what are the types of -- given that the evidence is unclear, what is it that you tend to focus on that makes you sort of lean one way versus the other way, et cetera?

MR. KUESTER: Well, in all honesty, I'm a patent attorney --

MS. GREENE: Okay.

MR. KUESTER: -- so from a biased perspective, I think my heart may be there just because that's what I do. But trying to divorce myself from what I do as part of this $3 billion industry, I --

MR. YOUNG: Sorry, $4.3 billion.

MR. KUESTER: -- $4.3 billion industry, as I was saying, if there isn't really good evidence that we can rely on that's not disputed -- and maybe that's too much to ask for, that there's no real, you know, disputes -- then as I was saying, I think that the patent system has dealt with new areas of technology before, and so this is a new area where I think they're going to react.

Frankly, I think a lot of the problems have come up because of the press and other groups of people who are reacting to seemingly overbroad patents in this area, which just say, "How could anybody get a patent

on that?" It's not unlike any defendant when they get accused of infringement, their immediate response is, "How could anybody get a patent on that?" It's a very common response. But then when you sort of explode that with the internet explosion -- and the internet is peculiar in the sense that it involves telecom as well, which is a time-honored, patentable area -- so, you combine these different factors, and all this excitement about everything, it seems to me just a bit misplaced in that the patent system is going to adapt and handle this just like it has handled everything else.

And therefore, the patent system inherently promoting innovation, this is just another aspect of something else that's patentable. It's hard to draw a line and say, well, this is not, for some particular reasons.

Now, if we step back and say there just is really no evidence of the patent system at all promoting innovation, I mean, you have to question whether or not, you know, America being the economy that it is, where would it be without the system that it had. Or we're all of a sudden off and running into an area where, you know, do we really want to try to change something that's been an integral part of our

economy, that's maybe played a part in getting us where we are today? Do we really want to now put I would think a restraint on the e-commerce part of our economy where it's suffered quite drastically in the recent year or two, as all of our 401(k)'s probably know. But given that investment dollars are going to be tighter than ever in this area, if now, copyright not existing and hasn't been for a while, we are going to pull patent away from that area as well, are we really going to now cripple any development in the e-commerce area, where I think the future lies in many regards for our economy?

MS. GREENE: Right, I'll turn to Rick in a moment, just throw one more thought out onto the table. One of the things that's been mentioned thus far is when it comes to whether or not business methods and software patents promote innovation, the question is whether or not the inventors are able to get a return on their money and whether they're able to, particularly in high capital-intensive industries.

The other element to the equation in terms of the social trade-off is what is being disclosed, and I was wondering if we can also put on the table what about the disclosures attendant to software make them particularly able or unable to promote innovation?

Rick?

MR. NYDEGGER: I have comments in a number of respects. Going back to his filed application for the method of answering the telephone, it's one thing to patent something as broadly as that. It's something else quite different again to, again, patent a technique that truly goes beyond that in new and interesting and potentially valuable ways.

For example, let's take that example, and suppose that someone had developed a technology using voice recognition in some sort of very sophisticated method for analyzing the voice pattern. When someone calls in, the secretary says, "Who's calling, please?" The software then immediately, based on the response, recognizes through that pattern recognition who's on the telephone. And suppose that that enables the attorney, Mr. Kuester, in the morning when he steps in the office and knowing he's programmed into his laptop computer a particular prioritization for incoming calls that day, that voice recognition pattern then says, oh, this is somebody in your family. Well, he's prioritized that at the top of the list. If they call, they are to be passed through, and that immediately pops up on the secretary's screen, this call is acceptable.

Now, that appears to be much more like technology and like something that ought to be protected. That illustrates the point. And therefore, it sort of begs the question to talk about the mere fact that some kinds of patents deal with technology that have a result, if you will, on the one hand of being useful in some business method context. Clearly that's a business method in the sense of, you know, a method for answering a telephone.

Now, I dare say that if a patent issued on something like that, you might well get some people out there who are saying, "Oh, you can't patent that. That's simply a method for answering the telephone." On the other hand, there's a good deal of technology that goes into that.

Now, as a follow-on to the comment that Bob made and I think also that Professor Kahin made, what about allocation of resources for protecting that kind of technology? Back in 1992, which is almost tantamount to the Jurassic Age for software technology, the Advisory Commission on Patent Law Reform found that the software industry at that time accounted for over $36.7 billion of the U.S. -- gross product, and I would venture to say that it is significantly higher than that today.

Spending -- and I don't think we should perhaps assume too quickly for purposes of the record that the patent profession is spending something like $3 or $4 billion. I don't know that that's really a -- you know, ought to be considered to be a finding, but even if it were, is it inappropriate to spend dollars in that magnitude to attract investment capital, which often is a primary concern for investors when they're looking to fund new kinds of technology development like the automated secretarial answering system, if we can use that as an example.

I mean, without those kinds of protections in place, very often these kinds of startup companies and these kinds of technologies would not get funded. So, it seems to me that it's not at all inappropriate to look at spending those kinds of resources to protect that technology for that, among other purposes. Not only that, patents can and often do put these kinds of startup companies on a more level playing field with respect to the dominant players in a market industry. That's not an unhealthy competition policy, it seems to me.

MS. GREENE: Let's turn to some more comments and just have people, to the extent that they want to, comment on the opposing example that Rick proposed,

because it seems like what you were mentioning and what Jeff Kuester was mentioning are poles apart, even though they do both go to answering the phone.

Why don't we just go in a line. Brian?

MR. KAHIN: Well, first, just a series of comments to respond to people since the last time I had a chance to speak.

First of all, in regards to e-commerce -- no, let me talk more generally first. I agree that we really do not have empirical data here; however, we do have empirical data on how other industries outside of software and business method look at patents, and the capsulated explanation -- answer is that for some industries, a few industries, the system is very important, especially biotech, pharmaceuticals, chemicals. For most industries, it's not that important.

It's possible that -- nobody's done this yet, although I would say that there are a couple of studies in Europe which show a negative perception of the patent system among small enterprises, particularly among small enterprises. So, it's ironic that given the fact that we've been out ahead on patent policy and expanding the scope of this system to deal with software, the first empirical stuff on this is coming

out of Europe. And I can assure you, you look at the site for the NRC study, there is no new empirical work coming out of that study that's going to help us in this discussion. There's a tiny, very small sample piece on biotech, but that's really it. That's the only thing that addresses the fundamental policy questions that we're talking about right now.

On the question of the impact on e-commerce, I think it's also important to remember that e-commerce has been driven by the widespread availability of nonproprietary technologies, the internet, all the protocols around the internet, the worldwide web.

And finally, Rick was raising some good, important questions there, and to my thinking, they have a lot to do with what is the appropriate breadth. Do you get a patent for the particular implementation, or do you get a patent for the whole business concept? And so these are the questions that should be asked. They are not being asked in this country. They are being asked in Europe. That's where the action is right now.

MS. GREENE: The action is right next to you, also, because I know that Jeff thinks about a lot of those topics, but your comment also or immediately is?

MR. KUSHAN: I find these debates to be

complicated, because what's really underlying the questions are the business strategies. I mean, the latest comment from Brian is a good way of framing this. Yeah, the internet community has defined standards, but all the money came into the internet community on the prospect of unjustified hopes of enrichment.

I mean, the concept that drove all the investment capital into the e-commerce sector was not the idea that we're all going to define standards to communicate with each other. It was the hope of unjustified enrichment, of launching companies and getting wealthy.

I mean, if the concept is that we want our technology-based products and services industries to be driven not by this lure of unjustified wealth but by another path, then let's have a debate about the propriety of patent availability, because the simplest way I look at this is when investors come and look at a project, a possession of a patent which excludes others from using the thing that will be developed by that venture increases the odds of commercial success. If people want to debate that, I'll have a wonderful debate, because I can't imagine that you can show that that's false.

If I can stop you from selling what I have just developed, my odds of success in the market are going to go up. And from a crude investment community calculation, they say that's better than not having exclusive rights. So, that's a separate question, and I think that is the undercurrent to a lot of these debates on patent eligibility, because if you want to have a different agreement about successful commercialization paths, then let's have that debate.

The question about whether there should be patent eligibility or drawing lines of eligibility is a separate question which, you know -- and I think this is one which we need to talk a lot about -- can you regulate proper patent grants in the system that we've endorsed, which is patent eligibility to facilitate successful commercialization?

Now -- and it's a good example, because in the software world, there are lots of people who have elected to choose a commercialization path which does not try to use or depend on proprietary rights, the open source movement. And a lot of this has been consciously pursuing a path, and I would argue that what they're selling is services and not products. I mean, the revenue projections that drove money into Red Hat and other Linux entities was not the idea that they

would make money selling products. They were going to get rich selling services to support the system.

I want to know, because that's my informal gut reaction, but there was a lot of money that went into Red Hat from the investment community on the hope that they would be making money somehow without having --

MR. YOUNG: And just for clarification, the answer is both. There is no distinction between a service and a product. From a customer's point of view, he just wants to solve the problem.

MR. KUSHAN: Right.

MR. YOUNG: So, just to be clear on that, it doesn't really matter.

MR. KUSHAN: Right, but that kind of frames the debate nicely over the question of whether you want proprietary rights in this area, because is the preponderance of success higher when you have patent availability and exclusive rights, even if they're not used to exclude, but just the availability of -- and the decision, or is it better or more productive to not have that in the environment? And that's, you know, fundamentally at the root of a lot of the debates that you see at this very high level -- should patents be available or not?

My sense is that the investment community has

told us they want more patent eligibility, they want to use anything they can to have success in the ventures that they back. And so my heart that I hear reflecting comments from investors is if you can find a way to make this more successful, I'll give this guy money. And if I could answer that question by saying, well, there could be a possibility of getting exclusivity over this part of what they're developing through a patent, then I get a plus on my column. If the answer is no, there is no possibility of getting exclusive rights, that doesn't end the investment inquiry. It says, well, what else can we do to achieve commercial success? How are we going to do that?

It forces thinking which is much more complicated than the question of whether you can get a patent on something. So, my sense is that generally there is a positive correlation on eligibility and investment money coming in and commercialization. And so that's -- again, I'm speaking to an issue which is a little bit different as it's been phrased, but that's I think at the root of this debate.

MS. GREENE: Jay?

MR. THOMAS: Okay, I would like to comment on a number of points -- this is Jay Thomas -- and as some of my colleagues have done at the round table, I will

indulge myself in a few moments of discussion.

As far as the definition, just for the purposes of my talk, my definition will be the point of patentable distinction involves the manipulation of natural laws to -- concerning physical elements. That is where the point of patentable distinction lies, and that is what I am talking about when I talk about business method patents, which I will call post-industrial patents, because it's more than just business methods. It's post-industrial patents in every walk of life as compared to, say -- and again, physical principles and natural laws as opposed to economic and social principles.

European statutes and regulations have these kinds of words in them, as do the Japanese corresponding provisions. These patent offices routinely reject applications on this ground. I'm just very surprised that we just think we're incapable of doing it when our foreign counterparts are doing it all the time and looking on us with something of a grin to see how we're manipulating our markets and our systems, why they're not subjecting their industry to the same constraints.

Statutes are full of words that are not defined well by the legislature and are hard to figure out.

Reasonable, seasonable, intent to monopolize, restraint of competition. You know, we work our way through it. It's not always easy, it's not always pretty, but that is the process of lawyering and how the law works.

I agree entirely with Mr. Young. The fact is, this economy is founded on the privilege to compete. That is the fundamental, bedrock principle of our capitalist economy. Value does not equal property. There has to be additional rationale for property than just it's valuable, and we simply must be very concerned when we manipulate our markets to restrain competition.

We're not just -- again, this is methods. We're patenting every walk of life. We're subjecting everything we do, every field of human endeavor, to private appropriation. I don't think that's something that we should casually enter into. I think that's something that should be done with restraint. When most regulating agencies regulate a market, they usually at least have notice and opportunity-for-comment rule making, and they will ask, first of all, what's our justification for making this rule? And is it a good idea? Let's ask about this.

You know, for individual patents, which are effectively laws, they are private causes of action in

tort that are drafted by private proprietors and enforced with all the vigor of private enterprise as compared to the comparative langor of the state. They are private laws. They are -- we just hand them out because -- we hand out private regulations because they're different. That's what it comes down to.

We don't ask whether they're good on an individual basis. We have this holistic belief that they're going to be for the good because they are going to promote more regulating.

When we say entire fields of endeavor -- you know, we suddenly submit entire new industries to private regulation in ways that just haven't been contemplated before, you know -- it seems to me we at least ought to ask whether we think it's a good idea, especially since when we do ask them, they routinely tell us they don't want it and it's a bad idea.

One just last comment is, do business owners need exclusivity? That's just not our experience. You know, I don't think when you say to a small business owner at a corner store, I am not going to open this corner store unless I have an exclusive permit, I'm the only one who can sell soda and snack food in this area. That's just not the way business enterprise runs. There are certainly other means of obtaining funding,

and for every business owner who wants more money, it --

MR. KUSHAN: Take a strip mall, where you have a CVS next to a Giant and ask whether the CVS is allowed to sell food products, and the --

MR. THOMAS: I regret the --

MR. KUSHAN: -- the guy who sold the lease to CVS says you're not allowed to sell food products because I can't sell the big space next to you to Giant --

MR. YOUNG: Yeah, but across the street, there's not --

MR. KUSHAN: These are nice hypotheticals, but there are all sorts of barriers that crop up everywhere.

MR. YOUNG: That's how most small businesses get started. It's not with any form of exclusivity. So, that's a very valid point.

MR. THOMAS: Yeah, I regret the interruption. In all events --

MR. YOUNG: I'm sorry, I'll restrain myself.

MR. THOMAS: -- for every business owner who wants money for funding, there's going to --

MS. GREENE: This is a discussion.

MR. THOMAS: -- there's a downstream business

owner who's going to be excluded, and we have to put that in. What are the effects of what we're doing on innovation and industry concentration? Would we be at WordPerfect 9.0 now, or would we be at WordPerfect 1.0 because that would be -- everything would be locked up with basic patents? Would we have one bank, because someone would have an idea of an ATM machine outside of the bank, or would we have lots of banks with different bank machine providers who have patented the physical components to make up their bank machines? I think these are really important issues.

You know, again, that's sort of where my heart takes me. If you're saying, well, let's patent everything because we think it's worked, gosh -- and this is my last comment -- how about the movie "When Harry Met Sally," and there's a scene where a young woman in a restaurant is eating and she just whips herself into a frenzy and is very delighted, and an older woman in the restaurant says, you know, I'm going to have what she's having. It just strikes me as this whole problem in the area of patents is the causation problem.

Again, I think my heart says that the privilege to compete is the most important principle we have in our economic way of life. And when we peel back

fingers of the invisible hand through broad manipulation of economic principles and proprietizing them, you know, we don't know if we are getting any good, but our experience with the patent system says there's going to be some bads, because there's speculators out there, there's monopolists, and we really ought to have some good reason.

Thank you.

MS. GREENE: Bob Young.

MR. YOUNG: Pleased to hear that. I thought I was the only one on this panel. Bob Young.

I guess I have three points. One is obviousness. Again, to pick on Rick down at the end, he was trying to describe something that should be patentable under a business method model, and I would strongly argue that the very idea that sitting around this table we could come up with an idea that should be patentable illustrates the problem with business method patents.

Patents should be things that are fundamentally nonobvious, things that take a lot of effort to invent and develop. If we can sit around here and come up with a good idea, by definition it should not be patentable. I mean, that should be the standard. If it didn't take several years worth of research to come

up with this idea, it should not be patentable.

So, you know, business methods is just -- the whole category should not be patentable. That's a personal opinion, but I've been in business for 20 years, and I haven't seen a business method yet that should be patentable.

The State Street case was a legal case. It was not an economic analysis case. The judges were not looking at this from the point of view is this the right thing to do for our society. They were looking at it from the point of view of is this how the law is written. I'm not a lawyer, so I'm not going to go there.

But the obviousness stuff, you know -- so, that's the one -- the example of this stuff is business methods shouldn't be -- a guy like Larry McVoy runs a little technology company in California called Bit Mover. It has built an algorithm that is sufficiently nonobvious that people in our industry have been trying to build this thing for 20 years. He's the first guy who's actually succeeded. He needs a patent on that, and the reason he needs a patent on that is not for him. It's for us, because how is Red Hat ever going to learn how to use, how to build technology like that if we don't have this societal bargain that the patent is

supposed to be about?

It's supposed to be about we'll give you a 20-year monopoly or whatever, some period of monopoly on your invention if you share with us the secret of your invention. Our industry needs to know how Larry McVoy did this, because we've been trying to do it for 20 years. Right now, Larry McVoy has no incentive, because he doesn't actually happen to believe in software patents, but that's another story. Without software patents, he actually doesn't have an incentive to share his invention with us, and this is a nonobvious invention. It's something that he's taken years and years and years to develop.

So, the absolute test is -- and this is the cool thing about this panel and about this whole discussion. When you actually start researching the history of it, and it goes back to -- I studied history in university -- you get all the way back to Jefferson and Franklin debating with Madison and Jefferson over whether we should have a patent office at all. And Jefferson's argument is, no, ideas are for the common good of mankind. And Madison argues, but what about the poor businessman who needs to make a profit on his investment? And they end up settling and saying, okay, we'll have a patent office for patenting inventions,

not, specifically, not for patenting ideas.

Business methods are ideas. Most of the software patents that I've ever seen are patents around ideas, but again, I'm not an expert on it.

The third one, though, is just to sponsor this thing, you know, we need to do -- we need to get smarter on this stuff. The -- you know, when I start talking about this and people come to me for advice and I realize, gee, if I'm an expert in this field, this field's in trouble. Examples of the sort of thing that we need to find and get going are guys like Bessen and Maskin at MIT did a paper on "Sequential Innovation, Patents, and Imitation." And as far as I'm concerned, they need a course in marketing, because that's probably the worst title of a study I've ever read. But it's a great study.

I mean, it's the sort of economic analysis of our industry saying, look, you know, software patents actually tangibly have no value. They did not increase the rate of innovation in our industry at all. All they've done is impose this huge cost on our industry and not done anything for accelerating innovation, because guys like me, all the entrepreneurs out there, are going to launch our companies anyway. You know, the software industry, 20 years is too long. In fact,

the three-year time it takes to get a patent is too long.

So, most of us -- you know, the IBMs rush around getting patents. Most of us entrepreneurs don't bother, because by the time we get a patent, we aren't using that piece of technology anymore anyway. So, we have got to keep focused, not on legal precedent, not on the fine points. We have got to keep focused on what's right for our society. How do we maximize our personal liberties? How do we maximize our economic growth? And are patents on business methods contributing or detracting from that?

It's painfully obvious to anyone in the industry that they have no great value other than to this $4.3 billion patent filing industry. Sorry.

MS. GREENE: No problem. Okay, we will turn to Mark for a comment, and then we are going to have our last two presentations.

MR. JANIS: I'm going to go back to the mundane fine legal points, just a quick response, mostly to Jay but to some of the other comments, too.

Jay, as usual, has forcefully and eloquently stated his position, but I think it's very important to take that apart a little bit. Jay is talking about whether -- the decision about granting exclusivity, and

Jay knows and, you know, I want to make sure that everyone else is clear, too, that there's a couple of decisions embedded there.

One decision is whether to make business methods or software or anything else eligible for patent protection. But that's not the ultimate decision about whether to grant exclusive rights. There are other doctrines, such as obviousness, enablement and other doctrines to consider.

So, when Jay says, very powerfully, should we be granting exclusive rights in this area, he might not be saying should we have a rule against eligibility for this subject matter. He could be saying, and I wish he were saying, we ought to have -- we ought to make sure that the obviousness criterion is being given robust and proper application in this area. We ought to make sure that disclosures are adequate and proper enabling teaching is given, consistent with the scope of what's claimed. And I think that's a very important distinction because I just think that those doctrines, obviousness and enablement, for example, they are more expensive, Brian Kahin mentioned that, they are more subtle, they are more complex, but I think that those are the doctrines -- I think that's where -- that's the hard task that is worth developing, because I think

that the history of the patent system has suggested to us that those doctrines do operate better as discriminators between what ought to be worthy of exclusive rights and what shouldn't be.

Just a final point that I hope picks up on several things that were said around the table, including when Jeff Kuester said he wished he had some empirical study so that he might know better whether exclusive rights work in this area. What he needs is a little more time, and we all need a little more time for this debate to develop, and I think that that is part of the difficulty here. Are we willing to give this a little more time? Are we willing to give courts a little more time to develop standards of obviousness in this area? It takes time.

Since I'm an academic, I have the luxury of being able to sit back and take the long view. I don't have to worry about whether my business is going to be destroyed by some bad patent today, and so I don't want to trivialize the problems that can exist when you have a new technology coming to the patent system and the patent system having to adapt to it. Those -- that is a -- we are in a time of volatility, and there are difficulties there.

But I think taking the long view, I really

suspect that we would find that gradually we could develop a proper obviousness standard, we could make sure the Patent Office had the resources to apply it, we could develop proper standards of enablement, and maybe a lot of this might not look so scary to us.

MS. GREENE: Let's see how scary it looks after Jay and Jeff Kushan give their presentations. Jay, if you could go first. Much of what's in their presentations has been hinted at in various ways throughout the morning.

MR. THOMAS: I guess at this point I needn't say that I have a skeptical view about intellectual property rights for computer software and business methods, but what I'll try to do is highlight some of the high points and discuss sort of the legal progeny for patents on business methods.

What about copyright protection? One thing I was tasked with was saying, well, what about copyrights, and are those enough, and what is the situation there? Well, key events for computer software, one of them was a 1964 policy of the Copyright Office to start registering software programs. Now, it did so under the rule of doubt, and remember, registration is not a full grant procedure like at the PTO. It's really more of a ministerial

task that alerts the public that a copyright exists and is a predicate to litigating the copyright, but it doesn't establish the copyright.

So, the Copyright Office did this, but it wasn't of such consequence. It really took the work of a Presidential Committee, the Committee on New Technological Uses, which in a final report just after the 1976 Copyright Act was enacted legitimized the copyrighting of software. And that was brought about through 1980 amendments to the '76 Act. So, there is really no question that copyright extends to computer software as text.

Really the courts have moved on to second order issues at this point. They're really more interested in copyrighted scope of protection, the interest of derivative works, especially linking and framing, especially in very recent cases. Scope of protection, the relationship between source code and object code, displays, what sort of protection lies there. Again, it's more finetuning than these initial questions we're grappling with today.

Now, what about business methods? Well, there's not much available under the Copyright Act. There are a few decisions from the courts that might have gone the other way, and there's a few examples

otherwise, but I think in large and in the main, Section 102(b) of the Act prohibits copyrighted ideas, procedures, processes, systems or methods of operation. And what this means is that there's probably not a lot of room for copyright protection in a business model, per se.

Again, if you have a business method on the internet with a hardware platform that's a software -- a piece of software text, you'll get protection for that software text to some degree, but you won't get protection on the model, per se. Anyone else could come up with one click, so long as they wrote the code themselves. So, what this meant is that innovators would turn to the patent system to attain more robust protection.

Now, there were a bunch of early limits on the patent protection of computer software. Mathematics, mental steps, abstract ideas, printed matter and algorithms have all come up in this arena. They have all been historical exceptions that when the patent system came along -- excuse me, when the computer software came along were challenged, that became more difficult to maintain.

For example, printed matter, text on a substrate, this was something that was held not to be

patentable, because it should be channelled to the copyright law. This is something that was not technological in character. Well, the difficulty, of course, with computer software is that although it looks like text, it's really a machine, right? It's really -- it's text that behaves. So, this printed matter exception started to wither and become increasingly challenged, and so with the other traditional exceptions.

Recent case law, particularly from the Federal Circuit, has largely obliterated all of these exceptions, some of them wholly, most of them with regard just to computer software, per se. So, there's really no doubt today that software inventions are broadly patentable under the current case law of the Federal Circuit.

What about business methods? Well, there's really a long pedigree for patent protection of business methods. One is the Statute of Monopolies. Now, I needn't apologize here about using monopolies versus super-competitive or something like that, because that's what the statute was called. The Crown was sponsoring a lot of monopolies in order to raise money, monopolies on things like printing playing cards or importing salt in the Jacobian era. And so the

Statute of Monopolies -- through that the Parliament prohibited Crown-sponsored commercial monopolies, just said they are void.

But there was an exception, and they said, well, you can have a patent, 14-year term, for "any manner of new Manufacture." It's important to note with this very early episode that this is a foundational issue for the patent law. The patent law has been concerned about business methods from the very beginning. The earliest common law antecedent that we have on a patent system said business methods are out. We're just going to have manner of new manufacture. That is what will be subject to proprietary rights or not. This is not a new issue, and it's as old as the patent system is in the English-speaking world.

Now, there were cases and decisions that continued this tack, largely out of recognition of the Statute of Monopolies. One was Ex parte Abraham, and that's an 1869 decision from the Patent Office Commissioner that said, well, look, the application from Abraham is analogous to a method of bookkeeping, and it is a long-standing rule in this Office as of 1869 that we do not allow patents in this arena. They simply said it. There was not a reasoning provided, but it was said expressly.

Another big event was when Judge Rich published an article, a free plug for the George Washington University Law Review, called "Principles of Patentability," and what he said in discussing Section 101 -- and again, this was a series of speeches done in 1959 -- is that not every invention is patentable. He gave a number of examples. He said teaching courses in chemistry or Russian language is valuable to our national defense, but it's not patentable, because it's outside the enumerated categories of invention in Section 101.

He also said that "one of the greatest inventions of our times, the diaper service," is not patentable subject matter. I think he was referring to the trucks that would come along with cloth diapers and take the new. I happily have recently advanced beyond the disposable diaper era in my household, but I would certainly concur it was a great invention and that it had a lot of value, but Judge Rich said this isn't patentable.

Now, why isn't it patentable? Well, he didn't really say that, but I think we can all agree this is not an abstract idea or natural law but instead would lie in the realm of business methods.

Now, there are clearly more cases on the other

side of the coin. One of the big ones is Paine Webber from the District Court of Delaware. Time is short, but I give you the language from what the court said. The court said, "The patent is statutory subject matter on a securities brokerage cash management system. It teaches a method of operation of a computer to effectuate a business activity."

In retrospect, it's really hard to say whether it's a software or business method patent case, but I think anyone who likes business method patents and is looking for an early antecedent can certainly fairly point to this decision. It does suggest that the business method exception is antedated, to say the least.

Then comes the State Street Bank case, and in State Street Bank, the patentee claimed a method of -- excuse me, first he had a method, eliminated those claims and stuck with his system claims, for managing master feeder funds, the so-called funds of funds. And Congress provided for certain tax regulations that if you managed these funds in a certain way, you would get single-pass taxation treatment, like a partnership, instead of double-pass taxation like a corporation.

The District Court, Judge Saris, said the invention wasn't patentable, because it was either math

or a method of doing business. So, it's important to note about the claims of this invention is that it basically claims a computer, and then it says -- again, when you attach to the computer the N-4, it basically at that point just copies from the tax regulations, and it's basically a means for complying with the tax laws, and if you match these regulations up with the claim, you'll find almost express borrowings of certain phrases.

The Federal Circuit held, as Professor Kahin told you earlier, that the transformation of data, representing discrete dollar amounts, by a machine through a series of math to a final share price produces a useful result that is patentable. That's really one of the core holdings. The Federal Circuit also took the opportunity to lay the ill-conceived business method exception to rest. It says, since the '52 Act, we ought to have treated business methods the same as any other kind of invention.

It's not a distinguished legal pedigree in this opinion, because I believe it has a lot of problems on a legal basis and deserves careful reading if you have not done it before. First, Judge Rich says, well, this invention produces a final share price, and that's why it's useful and therefore patentable. Well, one

difficulty is the claims don't say anything about final share price. I remain gratified that -- the fact is it's the operation of our market and not a patent claim that determines how shares will be priced in this country. The claim simply doesn't say final share price, and it makes me wonder if this invention was truly contemplated.

The State Street Bank test also collapses the statutory subject matter test into the utility requirement, which also resides in Section 101, but is a very lenient requirement. It simply requires that something have an immediately available result, not a very strict gatekeeper to the patent system if it is one at all.

Judge Rich also says, after Diehr and Chakrabarty, two Supreme Court cases, the Freeman-Walter-Abele test -- a predicate and more strict test about statutory subject matter -- has little applicability.

Well, that's a bit of a stretch, since Diehr and Chakrabarty were written in '80 and '81, and Abele, the last of the trilogy there, was written in '82. Judge Rich was on that panel, and in Abele the court discusses these two Supreme Court cases. It's a little difficult reasoning to say that these cases were

overruled even though they discuss the cases themselves in their own text.

Also, Chakrabarty expressly states a claim for an improved method of calculation, even when tied to a specific end use, is unpatentable, which makes me wonder to what extent that State Street Bank complies with governing Supreme Court precedent.

Is this transition problem or is it a tectonic shift, in the few moments I have remaining? Business methods are older than the patent system. The Hanseatic League, pricing on the nines, all of these things are a lot older than patent law. This isn't a case where we have got a new technology that is an immediate successor of the traditional industries. The traditional manual and mechanical arts the Framers contemplated is embraced within the patent law. This is something different.

This is, again, regulating a lot of industries that are as old as this republic, had previously not been regarded as patentable, or perhaps more fairly stated, patents were not traditionally sought. I think everyone would at least agree patents were not traditionally sought in these fields.

There is really no limit on what is patentable. Again, these are post-industrial patents. We are not

talking about business methods or finance or insurance only. We're talking about architecture or aesthetics or teaching. Again, personal liberties was mentioned before. I think these are a big concern, because we have even had patents enforced and injunctions issued on speech acts, on commercial advertising. So, this is something different in my view, not something -- not a little transition problem that will go away when we just get all the prior art at the Patent Office.

The last slide mentions a few examples, WordPerfect, Frequent Flyer Miles. I think we have to ask, again -- and I've stated this before, I won't bore you again -- but -- too much, I hope -- what's the baseline? Is it the privilege to compete, or is it the ease of the patent bar and the courts in deciding what's patentable? Is it getting rid of the standard just to be a little bit more coherent and to have it be easy and streamlined, or is this something fundamental to our economic way of life?

I believe my ten minutes have expired, so I will turn to my former professor at George Washington and my colleague Jeff Kushan. Thank you.

MR. KUSHAN: Thank you. I'm going to try to go fairly quickly, and I think it's been an extremely healthy and good discussion. I think there are a

couple ideas I want to put into play which luckily I've included in my presentation, but I think there are some very interesting opportunities ahead of us.

What I'd like to do is go to the question, which seems to be evolving, what do we mean by patent quality now. And I think that's -- I phrased it this way, because there have been a lot of evolutions since the debates in the nineties, and now with cases like Festo and written description evolving, this is a different question of what we need to come out of the Patent Office.

I'm going to talk a bit about the guidelines development process inside the PTO, more from the perspective of why than what was done. And then finally, I had wanted to get into some ideas to put into play on new areas for reform.

Patent quality has always been the middle part of this debate. It's -- you know, it's -- whenever people get frustrated, it's -- then they hold up a patent that nobody believes should have been issued and then sees an impact coming into the marketplace because of that inappropriately granted patent. What tends to be the focus is the claim covering a lot more than what the invention is described to be. And when we look at some evolving doctrines, written description is the

most popular evolving doctrine. It's something which I think is a very powerful doctrine to control and limit the scope of claims and make sure that they are conforming to what people are actually inventing. And it's particularly important in areas like software, genomics, where you're looking at what was actually made and trying to circumscribe rights to what the inventor made as opposed to what could be made.

So, the first variable in terms of expectations of a patent coming out of the Patent Office is that first and foremost in the modern age, this patent should cover what the inventor actually made and not go into areas which can't be reached by what the inventor made and what he has taught. One thing that I think was a glimmer, there was a Microsoft v. Reiffin case, which showed a glimmer of a new doctrine that might be coming online soon, and that's the notion of a claim which fails to capture all of the essential aspects of the invention that are necessary to deliver the utility identified for that invention.

So, if I say a method of doing a transaction in a microsecond comprising getting data and doing the transaction, but I leave all the parts out of the claim that you need to actually deliver that result, and that's why it's useful, that's not right. There should

be a claim reform to that claim to capture the things that are required to deliver the utility of the invention. This is something which may be challenging to deliver in the work product of the PTO, but it's something which will have constrained the scope of the claims in a way that's not linked to prior art and finding something out there. It's looking more at the description of the invention in the patent application.

Fundamentally, you also have to respect that patent claims should not be limited to picture claims, what you actually invented. There needs to be some breadth around those claims so that you get reasonable protection around what you invented. But the concept that you have to capture in these claims is that you define your invention and you show how to get to that scope around the claims, around the examples you've provided. That is the basis of this fairness in the patent grant. You're entitled to some scope of protection that is commensurate with your contribution.

The second major variable in the modern work product of the PTO is that the patent has got to, the patent record, has got to show us what happened inside the Patent Office. Festo, written description, claim interpretation, all these doctrines require a much more informative file wrapper than what you typically find

in a typical patent grant. What this is, you know, in the -- if you pick up a patent file wrapper, you see the -- all of the communications that went back and forth between the applicant and the Patent Office.

In that, what should come out of that record is a story where -- which we can in the public read and appreciate. What did the examiner perceive to be the invention? How would -- you know, there is evidence that you can look in the communications of the examiner that reflect what they thought the invention was that was the basis of the examination. What information was considered by the PTO? So, we can know if new information should be considered fairly -- have been addressed in the examination process or whether something really that was not in play in the PTO.

What did the applicant say to the PTO to get the patent granted? This is going to be an extremely important boundary now after Festo in shaping what rights are actually going to attach to the patent grant. And finally, what does the examiner conclude why this invention was patentable? This is difficult to capture, but it's -- you know, typically, if you look at the sequence of events, you have a lot of vigorous rejections imposed in the first office action, and then you have a response by the applicant, then you

have a very broad patent that comes out. What did the applicant say that the examiner found persuasive to withdraw all those rejections and allow the patent?

If we knew that, we'd have a good -- a much greater insight into understanding what exactly the scope of the claims were and how to interpret those when they go into litigation. So, in terms of what must come out of the Patent Office, I look at the quality measurement, looking at these two variables, making sure that the claims are right and giving us a complete picture on what happened inside the PTO.

Now, in a perfect world, we'd have these refined economic social, et cetera, debates inside the PTO to make sure that all the patents that ever come out are truly justified, deserving, et cetera. That's a dream world. The real world is 300,000 cases that the Patent Office did not write, that have been filed by people who want patents, are flowing in every year. You've got 25 percent of the patent examining corps saying I can make a better life outside the Patent Office than I can inside the Office, so turnover is moving, and that's not entirely unhealthy.

UNIDENTIFIED SPEAKER: Is that still true in this economy?

MR. KUSHAN: Well --

UNIDENTIFIED SPEAKER: Turnover I believe is going down a little bit, but still with the increases, it's...

MR. KUSHAN: Ten to 15 percent is still a fairly significant loss of experienced examiners each year going out. You get roughly 25 hours to finish, that's the time that the PTO can budget to moving a case from filing to grant. That's the entire examination process. Constantly evolving legal standards that have to be taught to examiners who come out of college last year. This is the environment, this is the environment where you have to shape the examination policy. So, you see a lot of obvious constraints in what you can do and what you can expect the PTO to do in order to get something that is not going to be too disruptive in the market when these patents are granted.

So, when I look at this type of challenge, the examination priorities that are crucial to patent quality have to be focused on a process which in the shortest amount of time achieves a number of very specific points. The examiner must be able to quickly comprehend what the invention is. They have to analyze the claims to compare the invention as comprehended to what the applicant wants. They have got to find prior

art that is relevant to what the claims are. And then they have got to go to the key patentability requirements and make accurate judgments on those.

112 has two requirements, enablement, written description, those are the major inquiries for many cases today. 102, novelty is a fairly simple test if you have a piece of prior art, and 103 is a harder test, which has a subjective element that must be -- is another test, harder to apply but fundamental to the patent grant.

Utility, my favorite topic. I've obsessed more probably than anybody in the past decade over utility, and it is fundamentally not the standard we want to measure patent grants by. It's a very important requirement. You know, as Jay said, there's two aspects of 101. Four categories. Your claim has to fit into one of four categories. And second, your invention that you've claimed has to be useful. And that is a definition that has been toyed with in various cases by the Federal Circuit.

Fundamentally, it's a yes/no question. It's not a how much question. It is a simple, binary choice. Does the invention fit into one of these four boxes? Does the invention possess utility? If the answer is yes, you're done, thank you very much.

Now, utility has a lot of value in the examination as a disclosure. If I say, "This invention is the greatest thing for doing X," and then I find prior art that shows very similar technology for doing X, we should be able to use that statement of utility to somehow pin in whether the applicant can say, "No, my invention is useful for Y, and therefore that very relevant art shouldn't be applied to me." So, you can -- there's a lot more creativity that can be achieved in the use of the utility disclosures in shaping how you apply these other criteria of patentability.

Whether the essential aspects of the invention deliver that utility, if you say I think my invention has to do X, and there are a number of attributes to the invention that are necessary to deliver that, that hopefully should be used in a useful way in the patent examination process to make sure that the claims that come out of the examination process capture all those requirements.

When you look at the process of examination when a rejection has been imposed, you can use the utility characterization to shape and limit how the applicant might try to escape from the effect of an obviousness rejection. Again, this is something which

is in the meat and potatoes side of examination but is something which is not typically used a lot.

Now, I want to talk a bit about the experience in the '94 and '96 time frame for developing the Computer-Implemented Guidelines. Fundamentally, the exercise was aimed at addressing the unhappiness of the -- I suppose a nice way of saying it -- the "find the algorithm" test, which was a basic examination strategy from '88 until '94-'95. Under the Freeman-Walter-Abele standard, what you had was this obsession with whether the invention was a mathematical algorithm or not. And the practical effect in terms of the examining corps was that examiners were just fighting endlessly over whether the claims were defining a mathematical algorithm or not, and after this big fight, you know, the applicant finally convinces the examiner this is not a mathematical algorithm, and out pops the patent.

What happened to novelty? What happened to obviousness? What happened to enablement? What happened to written description? We didn't have time for that, because we were trying to find the algorithm. And that was fundamentally an unhealthy examination strategy, to put so much emphasis on the algorithm-finding function of that test. So, part of

the motivation of those guidelines was to say stop it, stop obsessing about whether this is an algorithm or not. Let's give you a simpler perspective, where you can get past the question of whether it's eligible and go into the measurement standards of patentability.

So, one thing that was done that was new for the PTO was to do an extremely broad calling for information from the public. And I can attest to this because back in '92 I was with the Advisory Commission staff, I did work on that. We did hearings, we did solicitations for comments, we went out to bar groups, went out to public lectures, tons and tons of outreach to try and find out if we were going down the right path. And what we heard universally was that there were concerns about patent quality, and then you started to hear a very useful input into the reasons why those concerns existed. And that's a process which I think now is part and parcel of the PTO's examination development process, to go out and get that information.

So, what happened? The test that ended up being fashioned was a very simple, some might call it a crude screening process, where there are some safe harbors defined for the examiners and also for patent applicants to define whether their claims would be

subjected to a 101 rejection or not. And those safe harbors, we came up with a number of those safe harbors, but fundamentally, the simplest way to think about it, if the claim didn't fit into one of those safe harbors, go talk to your supervisor, and -- because if it wasn't going to fit into one of those clean, clearly defined categories, it's going to be a more complicated inquiry, and we don't want the junior examiners doing that complicated inquiry. We want them to rely on the more experienced examiners.

The whole essence, as I said, was to get people past 101 and get in -- get the examiners into a review of 112 issues and 102 issues and 103 issues.

So, at this point what I want to do is shift over into kind of a forward-looking set of comments. There are a very finite range of options for the PTO, given all of its constraints on what it can do to improve patent quality through its examination process. If you look at all these current developments in the law, what we want to focus on is getting a work product that helps us answer and fit into this world defined by Festo and Enzo and a number of other recent cases so that when these patents go into litigation, we can navigate the claims and find out what the claim scope should be. What did the applicant relinquish during

examination? How did the applicant characterize the invention critical to written description? What was needed to convince the examiner that the invention was patentable? That should come out of the file wrapper.

Money is important. If you're running the PTO on 85 percent funding, which is Congress' current prerogative, PTO has to be extremely efficient. $200 million going out of the system every year is going to have an impact on patent quality. Congress doesn't seem to be intent on changing that any time soon. They keep diverting the money.

How do you get better quality and shrink the amount of work? Well, you've got to shift more of the examination burdens onto the applicant. And I'm sorry, this is where I'll be ostracized by my fellow colleagues in the patent bar, but the patent applicant has to help more and to be used more to produce a better quality work product. Otherwise, we will not achieve improvements in patent quality. You've got to help examiners understand the invention faster than they are now. You have to help the examiner conduct a proper search, because the inventors typically know more about the technology than the examiner does, and where you might find something that might be relevant.

You have got to focus patentability questions

on the core issues that are going to address and answer correctly whether the invention is patentable, rather than the current process, where you have the examiners essentially fumbling toward the answer. If you look at the examination process now, the examiner picks up the case, reads it, tries to figure out what the invention is, tries to figure out what the claims are, does a search, and makes a whole bunch of assumptions about the invention.

They go out in the first office action, and half the time they may be completely irrelevant to what the invention is or the relevant topics. We've got to find a way of getting the right rejections imposed earlier in the process so we can get to the questions that are relevant to the actual patentability criteria.

There's a powerful tool the PTO has at its disposal to get that information out of applicants. If you say something to a patent applicant and the applicant says something misleading back to the Patent Office, there goes the patent. It's unenforceable. So, the Patent Office, through coercion, can elicit a lot more information in the examination process than people perceive and is currently done, and that may be a tool that PTO needs to employ more to get this information into the system faster.

There are some streamlining issues that need to be addressed. And this is really getting into the green eye shade perspective of examination reform, but I'm up here, and you can't get rid of me for another couple of minutes, so here we go. Right now we have about 36 months before -- it can be -- well, no. Soon, it will be about three years before a patent examiner picks up your application and sends you a first communication about whether the invention has any merit. That's a long time to sit there and wait before you know anything, and we have got to find ways of getting earlier communications that can move the prosecution forward.

I think giving examiners some capacity to send an early communication out and get information in to better frame the issues may be a tool that should be employed by the PTO. We need to use a more legalistic perspective on examination, where the examiners can require stipulations on obviousness or other criteria, a person skilled in the art. If we can stipulate to that, we can save some time, and that would be the same legally binding effect as an examiner finding and making a conclusion on that point. But there are a lot of little issues that can be stipulated to and solicited from the applicant to get the conclusions

framed quickly.

We need to find a way of letting the rules empower the examiners to get substantive responses to things that the examiners say, as opposed to knocking issues off the table by procedure. I know I'll never be able to work in the patent world after this talk, but, you know, this is the area for reform that will actually shrink pendency and get quality up. But we need to start thinking of things that are a little bit more radical.

When you look at the file wrappers that come out, you know, it's like reading the entrails of a goat, because there is so little in there to explain what actually happened that we get paid a lot of money to be patent experts to try to guess what might have happened. And it sure would be nice if something overt was in there that explained why a rejection was being withdrawn or the claims were being allowed.

There are lots of instances where good examiners will document and say, all right, listen, I read this point from the applicant, and that's why I'm allowing the case, but there is much more frequency of patents which are totally cryptic. And we need to find a way of getting an explanation of what happened captured in the record.

If you're an examiner and you tell the applicant, I'm going to search in this area, and the applicant knows that's not right and fails to do something, that patent's not going to be worth a lot. Again, coercion is a useful tool here to get the right information in.

In conclusion, I come from a perspective which is different from others who we're hearing from today. I think radical changes about redrawing the lines on eligibility is going to be a lot more harmful and not going to achieve much of the desire, which everybody shares, which is to prevent the issuance of patents that are inappropriate, too broad, and disruptive in the market. And my experience has shown -- my experience has taught me at least that trying to draw these relatively arbitrary lines over eligibility just will not work at addressing the fundamental concern, which is that of inappropriate rights.

When I look at the impact in the sector of IT, what you can -- and I want to kind of draw into the real world for a second. People or companies sitting around a table, for example, defining a new standard, each of them possessing appropriate rights, can usually yield a good outcome. They usually sort out their differences. They figure out what rights and what

entitlements on royalties can be appropriately shared among this group of standard-setting entities. That is the desirable outcome, where you have an appropriate use of patents and market power and participation and technology contributions to define standards, to work together, and to yield market-based compliance.

When you have invalid patents, overbroad patents, that disrupts these processes, but fundamentally, we should be solving that disruptive effect by getting better quality patents than attempting to carve out the patent eligibility or do more radical steps.

Finally, as I said before, the Holy Grail here is to get better patent quality in a shorter amount of time. And to achieve that, or to try to achieve that, we need to put more responsibility on applicants to better frame the issues that are key to patentability, produce this goal of improved quality, better record, and more accurately characterize rights or define rights.

Thank you.

MS. GREENE: We have gone right through the morning break, and I'm sure you all didn't notice that. But now it's just too late, because we have more things to discuss, so we will just plow ahead.

Any reactions to the two presentations?

Brian?

MR. KAHIN: I'd like to sort of zoom out. And, you know, I appreciate a number of things that Jeff is saying about reforming the process, but, you know, realistically these reforms do have costs. There is a political cost that would have to be paid, and there's a -- it is very difficult to suggest reforms that are going to increase the burden on small applicants.

On the other hand, we also don't have an adequate framework for understanding the total costs of the system. And to say that the patent system is running at 85 percent of what it needs or what it deserves, I mean, is 85 percent of what? You know, we don't know what it takes to do a proper job. We don't have any measures of the optimum, and the only way we can get at those measures, in my opinion, is to have some extrinsic evidence that's tied to how the patent system quality is viewed within the industries that it affects.

It's got to have some tie to an outside reality. So, if you could actually show -- and this is not just the customers that the PTO defines, it is not just the patent applicants. You can't just ask the patent applicants, are we doing a good job? You have

to ask the industries that are affected. And, of course, this gets very hard to do in some of the areas we've been talking about, software and business method, because it's very hard to define the industries, especially business methods, because they're every industry.

But anyway, if there were some way, then we could get a handle on what are the trade-offs. I do commend the Patent Office for the business method initiative, because for frankly the first time, we got some kind of empirical handle on what additional investment in the examination process would result in in terms of acceptances. But until we find some broader framework for understanding costs, then there's no way of getting this beyond the political problem that you face because of the institutionalized information asymmetries and the difference in the ability to bear cost.

As we saw in all the furor around the American Inventors Protection Act, it was polarized between the patent establishment and independent inventors, including universities, around the issues of how the different parties bear information and transaction costs, not along the issues we've been talking about here at all. But that is the political reality in

which we've got to operate.

MS. GREENE: Bob?

MR. YOUNG: Yeah, for all that Jeff and I probably disagree on a lot of things, I was actually very impressed with his reform proposals. I think it would go a long way to avoid some of the problems. And the problems are -- you know, the furor you referred to earlier over some of the patents that various parts of our industry get upset about really delve into the obviousness issues, that someone says, how did you get a patent on that, I could have thought of that one, you know, yesterday evening drinking beer. In fact, that's where I get most of my good ideas. We won't go there. But just on the topic of reform, two items on software patents.

If we have to have software patents -- so let me phrase that, I don't like software patents as a general rule, but we need to have very high standards associated with them. Software is, just to be very clear, software is a form of expression. It may be a form of expression that most of us on this panel cannot interpret, but we all appreciate that if someone tells a joke in Albanian and a bunch of Albanians laugh at it, it's probably a funny joke, and we will protect the Albanians' right to free speech or would if they had

it.

Source code is exactly the same thing. Software is the same thing in our industry. If you can code software well, I mean, I go to conferences, technical conferences where you hang around the hallways and you listen to these guys tell jokes to each other in software code. I mean, such that a regular human being like myself doesn't understand a clue of what they've just finished saying. Because of that -- so, that's the problem with software patents, is it actually infringes on a form of expression, and if it's -- if it is not truly nonobvious, if it is not a Larry McVoy type invention, then there's a problem associated with patenting this.

One of the problems may be that 20-year patents in software is simply too long. If we have to have software patents, maybe they should only be ten years, because our software -- our industry moves so quickly that 20 years is a whole career. It's effectively taking that algorithm out of the use of the industry for a generation, in effect, and it may not be a good idea. So, there may be some way of -- I don't know if anyone's discussed the way of having patents on shorter time frames.

But finally, and this is the one I care most

about, is if we have to have software patents, we have to require that the person applying for the software patent files the source code behind that patent, because the source code is the invention. It -- without knowing that the source code does what the applicant says it does, you can be very easily granting a patent to someone for an idea. He says, I'm going to write source code to do this. If he doesn't have to file the source code, you don't actually know for a fact that he is doing what the description in his patent says he is doing.

It's actually a real problem in the whole software industry, that the reason people have so much enthusiasm over the open source technologies, like Linux and Apache Web-Serving, is because we deliver source code. The users of these technologies can trust the technology, because they can look at it. If it doesn't do what it's supposed to do, they can find out if the problem is that there's an error in it or did the guy who wrote it write intentionally to cause harm to his competitors?

In the sort of existing software industry or legacy software industry, this binary-only model, where you buy software without getting source code, we've seen well documented, the Caldera v. Microsoft case,

well-documented cases of companies who published software, distributed software that had code written in it whose purpose was to damage his competitor. And these companies get away with it for 10-15 years because no one ever sees the source code.

You know, it's sort of as if we wrote laws in this country and didn't have to publish the law, just threw people in jail for breaking the law without having to tell them what the law would have said. So, source code is essential. Software is not software without source code. It is as simple as that.

Thank you.

MS. GREENE: How do Bob's ideas about disclosures of source code fit in with your areas of inquiry?

MR. KUSHAN: Source code is virtually useless for the examiner to do a good job in examination. It may be an important part to show possession of an invention, especially under the written description standards, but the real challenge and the better type of patent application for the PTO to consume is one that abstracts the source code to a slightly higher level of explanation, so that the examiner can appreciate how the functionality that it imparts into a computer is achieved, and that allows the examiner a

much more digestible perspective on the invention, so they could do a better search and make that determination of obviousness.

And then one of the problems is that if you focus on the source code, you're actually kind of going to a level that is unhelpful to you making accurate judgments on obviousness, because you want to know that if you could do this technique by a very simple, well-known other alternative, equally relevant technique, that would render the invention obvious, and the dependence on that source code is really very little, if none.

So, for examination processes, there -- and I know that when we were looking at the examination reform issues throughout the nineties, that was one of the big questions. How do you get a characterization of the software at a sufficiently high level into the hands of the examiner so they can do a better job in appreciating what the invention is and doing a search?

I note that I think the way that the PTO came out was basically to say use any way you can, other than source code, because source code is just not a uniform starting point that everybody can appreciate. It's better to have something that is more digestible.

But again -- and I know we were talking before

the conference started, but whether you want to have disclosure requirements of source code for some techniques or some software that is very difficult to prove it works the way it does or if there's some dependence on the invention on a particular implementation, that may be something where deposits analogous to the micro-organism deposits in the biotech area achieve the goal of satisfying public need and access to an operable invention. But that's an area which hasn't really been looked at much inside the PTO.

MS. GREENE: Your reference now to the written description requirement is particularly challenging for software. Can you just -- you went through some of this in your presentation. Can you reflect on the other requirements and how those may or may not be easy to translate into software/business methods?

MR. KUSHAN: Well, the -- I think the thing that's interesting about the recent cases on written description, and maybe the way to look at it is, written description is a measurement of what the applicant did, and enablement is a measurement of what the public can do with what the applicant has given to the public. And the two questions are kind of pointing in opposite directions as far as the inquiry.

Enablement becomes a less difficult standard to

meet when the technological skill in the art gets mature and more sophisticated. So, if I show in my disclosure, you know, you have to find a way of displaying this image on the screen, somebody who's writing code, that's trivial. So, to enable display on virtually any type of display would be enabled by a very simple disclosure. But if the invention is a particular technique that's better than the rest, then -- and that's really why this invention is useful, then the written description requirement will focus on how that's characterized in the application and how that tracks in relation to the claim.

The enablement issue is not really going to be a complicated inquiry. On the other standards, obviousness has always been a tough test, because process claims, unlike product claims, are much more complicated inquiries. Why did you pick this sequence of steps? The motivation from the prior art as to a sequence of steps is much harder to establish than analogy in like in a chemical compound, that this chemical compound is like that chemical compound and therefore might be obvious. That goes into the questions of whether you can have certain types of stipulations as to the state -- you know, whether something would be obvious to code something to achieve

this function, as a way of framing or at least getting to a more refined obviousness inquiry.

But that's the -- enablement, written description and obviousness are the hardest standards to apply, but those are all the ones that shape what claims come out the best. Those are the measurement criteria, and those are the ones that we've got to find better ways of applying inside the PTO.

MS. GREENE: Okay, let me just open up the floor for anybody to make any additional comments that they want, perhaps prompting more questions. And to the extent folks want to focus on the issues that Jeff has been raising, to what extent does Jeff's proposal of focusing on the -- these criteria rather than the underlying eligibility requirement, to what extent are people optimistic about it? We've heard a little from Brian on that and would like to hear from other folks.

Rick?

MR. NYDEGGER: Well, actually I have comments more directed to some of the points that were commented on earlier, and then I'll get to my response to Jeff.

There really are two things that I'd like to comment on with regard to some of Jay Thomas' comments and remarks. You made the point in one of the slides that there were certain limitations that were

established that involved things like patenting mathematics, mental steps, abstract ideas, printed matter, and algorithms. First of all, I think it is important to distinguish between those limitations which are Constitutional in nature and those which are not.

Part of our Constitutional jurisprudence on the law of patent eligibility has and continues to require that laws of nature, natural phenomena and abstract ideas are, in fact, limitations. So, it's not strictly correct to say that contemporary cases have eliminated restrictions such as abstract ideas. Those remain as constraints under a shield of Constitutional cases that are there today.

Secondly, in respect to that, I think that there is another way of looking at the development of the cases in the lower courts, which suggests something other than elimination of those restrictions. For example, it seems to me that much of what was going on in those cases was simply a recognition by the lower courts, the CCPA, in particular, and the Federal Circuit that the standards they were attempting to employ in their effort to comply with those Constitutional constraints was unworkable.

In point of fact, what we saw happening was

very much like the same kind of thing we saw that led to ultimately the enactment of the nonobviousness standards in the 1952 Act. The law of invention developed into such a state of disarray prior to 1952, in terms of efforts by the Supreme Court and other courts to develop what did or didn't constitute invention, that ultimately those cases were largely discarded in favor of what was perceived at the time to be a more workable and definable standard, namely, nonobviousness.

I think the same kind of thing is going on with respect to the law of patent eligibility in the cases. What we've seen is that the lower courts were attempting to define patent eligibility through a series of negative rules; that is to say, by pigeonholing something as a mental step, that was discarded in 1970, in the CCPA's decision in In re Musgrave. Pigeonholing something as printed matter, that was later discarded by the Federal Circuit in 1995 in In re Lowry. Then later, the mathematical algorithm and the business method exceptions, which ultimately were discarded, of course, in State Street Bank.

So, instead what the court did is determine that they have to define the constraints of not permitting subject matter that represents, for example,

an abstract idea from being patented by defining that constraint in terms of a positive test, something that required positive end results. So, I think it's possible to look at the case development in a way that doesn't necessarily say that these restrictions were simply eliminated. They were simply redefined in a different way because of the unworkability of all of these negative rules that had developed out there in the case law.

The other point that I would like to make in relation to State Street Bank, which was also addressed by Jay, is that I think that at the heart of the difficulty is the problem of properly interpreting the claims in question, in other words, answering the question, "What exactly did the applicant invent?" This touches a little bit on Jeff Kushan's comments. In State Street, Judge Rich looked to the claim language and the underlying language in the specification which supported that claim, and he found a machine that consisted of a CPU and a data disk and certain complete new logic circuits. In contrast to that, the lower court decision in State Street saw the claimed invention rather as a combination of processing computations as opposed to some sort of a machine.

I think that on one level, the rationale used

by Judge Rich can be criticized as overly simplistic and could lead virtually in every case to the finding of a statutory machine. On the other hand, I think that a closer look at the nature of software, how it's evolved with time and its relationship to hardware, perhaps illustrate why that rationale is not necessarily as flawed as some think that it is.

To illustrate my point, hardware can include, as everyone is well aware, a series of interconnected computer chips. Given today's technology, there can be literally thousands, tens of thousands, hundreds of thousands of micro-circuits which are not visible to the human eye. Those kinds of hardware architectures are more easily described in terms of the functional relationships between plots or components of those circuits. That's very similar to the way in which hardware is developed. Just as in the case of hardware, it's really the functional relationship that goes on between the different steps that are performed in a complex program that represents sometimes literally thousands or tens of thousands of different processing steps that become described functionally by -- in terms of what they do. It's that functional interrelationship that becomes a thing of interest.

I think that's the reason why persons skilled

in the art and who can implement that does certain functions in either hardware or software, but the line between them is often very blurry.

So --

MS. GREENE: Okay, and I am going to give Jay a chance to respond. Did you have more?

MR. NYDEGGER: Yeah, I had actually two more points.

MS. GREENE: Okay.

MR. NYDEGGER: I think the court's focus in State Street on this concrete, tangible result test really reflects the way in which this software technology has developed. In the early days, just as in Benson, what we saw was number crunching, programming using more mathematical kinds of processing steps as opposed to the more object-oriented programming that goes on today that focuses on functional relationships between the plots or chunks of program components.

I think the other point that is maybe worth just observing is the point that Jay Thomas made on the Constitutional history. He wrote an article in 1999 that was published in I think it was Boston Law Review. It was entitled "Patenting of the Liberal Professions." And he made the point there that he felt that the

Framers of the Constitution undoubtedly did not intend for this kind of subject matter to be embraced under the patent statute. They had certainly contemplated industrial, mechanical and manual arts in contrast to the seven liberal arts and the four fine arts in the classic learning. Yet on the other hand, it seems to me that the Framers didn't contemplate patenting things like the Harvard mouse, either, or gene sequences, or new pharmaceuticals that take advantage of those kinds of gene sequences to target specific kinds of organisms for treating disease. Clearly none of those things were contemplated by the Framers, and yet they are very important, useful technologies to us today.

I think it's fair to say that Jefferson, who really was the framer of the first patent act and who was the architect of Section 101, which has been essentially the same since 1793, with the exception of changing one word in that section of the statute, saw that as a liberal section. In his writings, he made the comment, quoting here, that "Ingenuity should receive a liberal encouragement."

So, I think those are points that one ought to take into account in reflecting on where the case law has come from, where it is today, and what kinds of policies are and ought to drive the case law.

MS. GREENE: Jay?

MR. THOMAS: First, thank you for reading the article, which is all I'll say on that. And I certainly enjoyed Jeff's comments and would agree heartily with all of them toward the end. I think we're all working toward the same goals on that score. And I would just note some skepticism about the nature of the prior art in these business method fields, because unlike the sciences, there is not a drive to publish. There is no Chemical Abstracts available with disclosures. The commercial practices are kept in the heads of business persons, and I think there are much more systemic problems in getting a hold of the prior art. So, I think a lot of his reforms are well meaning, and if enacted would do a lot to improve, but I do think there are systemic problems in the areas outside the confines of traditional technology with which the patent system has usually concerned itself.

Thank you.

MS. GREENE: And I am just going to make one more appeal. Does anybody have any additional comments on Jay's great articulation of whether or not there's systemic problems for these particular areas?

MR. YOUNG: Other than the -- this is Bob Young.

Other than just the obviousness, the concept of this being an idea, the moment you approach granting a patent around a concept or an idea, by definition, you're going to raise all sorts of problems of how do you define that thing. You can define an invention. You can define an implementation of an idea. You can't define an idea well enough to patent it.

MS. GREENE: Brian?

MR. KAHIN: A couple of points about it. One is --

MS. GREENE: Jeff, are you going to respond to that?

MR. KAHIN: I am going to respond specifically to this question. And that is the more abstract the subject matter, the more difficulty you have in having a consistent vocabulary. That's a fundamental problem. It's a fundamental problem of high-level software patents and business method patents in particular.

I did suggest that there are some dimensions of the software documentation problem that are more complex. And they have to do with the fact that software, unlike business methods, is largely self-documenting, that you have in the code itself and in the comments that are written into the code, you have documentation, but that documentation is lost when

the code is compiled, or at least it's virtually inaccessible, especially if it's protected under contract. So that there are complexities in software, and there is this enormous volume problem that's distinct from the business method, although other aspects that Jay mentioned are similar.

MS. GREENE: Jeff?

MR. KUSHAN: The systemic problem that Jay has pointed to is one that I -- it's a very easy thing to put into play and in debate. And the problem I see is that the vast volume, the high volume of cases that are being filed don't tend to characterize or seek claims in the worst case scenarios. And I think legitimately, some of these ideas that people conjure up as possible interests for patenting, certainly one has to question why they would waste their money trying to get those claims.

I think in the process of the debate, there's been this fundamental problem of defining business method patents and essentially taking the example of someone combing their hair and saying that's what all these cases are focused on, when, in fact, 99 percent of the cases that are probably in the category of business method inventions are automated techniques for doing something that people used to do in a

nonautomated way. And I think a very important inquiry that may calm down the concern, because if people are going to be getting claims to block out the business model, that's bad. Certainly that precludes the innovation and the subsequent innovation that the system is supposed to induce.

If the claims are truly capturing and encompassing every way you are going to implement a business model, that claim should never come out of the Patent Office. My sense is that you can stop that claim with stringent written description requirement, possibly with enablement, possibly using utility, and looking at some of these, you know, not yet fully developed legal concepts like essential elements to make sure that those broad claims don't come out.

That's where I -- I mean, I wanted to leave on a positive note, that I am very sympathetic to the concerns of claims coming out of the Patent Office that cover business models, because that's certainly not something which is fitting into the logic of the patent system and not helpful.

I think I differ from Jay in that I would put all of our effort into using the tools of written description, enablement, obviousness and other tools that could be come up with to prevent those claims from

coming out of the Patent Office without the appropriate limitations and allow the subsequent innovation to occur. And that's I think the challenge, but I think the end point is probably shared. Nobody wants these dominating patents to come out which foreclose the subsequent innovation.

MS. GREENE: Jeff, and this will have to be the last word.

MR. KUESTER: Oh, boy. I'm not sure I'd go as far as saying no one wants those patents to come out, because first of all, what are we talking about? You suggested, you know, no one wants the business model to be covered. We step into the same definitional problem of what is a business model now and how is that different from, you know, the software system that, you know, Rick suggested. Is that a business model of automatically answering and determining who your phone is -- who's calling you or something?

I think furthermore that the comments we've heard -- you know, Jay saying there was just a systemic problem with these business method patents and Robert saying that, you know, well, they're just obvious, unless it took years and years to come up, it shouldn't be patentable -- and the fact that we can sit around and think of something is evidence that it shouldn't be

patentable, those are the exact types of arguments that I talked about earlier, that are not based on any empirical evidence at all, you know, it's just wrong, they're just obvious, it's just systemically wrong, you know, all areas of life are now patentable. And it's just these types of debates, in terms of, you know, sort of hurling out these types of arguments, I don't think are really where we need to be ultimately.

Again, my point is that we need some real empirical evidence. We need to be focusing on is the Constitutional purpose of advancing science and the arts really being forwarded by this particular area. And you have to actually step back and talk in terms of economics that we can all agree on, that we have baselines and we're looking at, you know, not just an investment in particular areas, but also benefit to society, benefit in all areas, not just this one area.

So -- but I am, like Jeff, confident that the Patent Office can react to whatever it is that we need to do in this area. If there is, in fact, a utility problem, if there is, in fact, a written description problem in this area, then I'm sure the Patent Office is equipped to be able to do that, as long as it doesn't get into analyzing code as Robert suggested. I tend to agree with Jeff. That's virtually useless in

an examination process. It's tens of thousands of lines of information that just can't be really utilized very well. So, as long as we're not heading down the road that creates so much more additional work that also the small inventors would now be burdened to have to explain things that -- or, you know, they may not know what a search area is and whether or not that's the right one or --

And with the courts out there, you -- that's the other variable here. Of course, they started us down this road with State Street, you might argue. And you've got issues there with, you know, if -- if we didn't have Gentry issues and other definite -- Gentry issues in terms of -- let's just suffice to say that the scope of the claim protection is now very much dependent on not only what you say in the prosecution, but how the patent specification and the wording is presented earlier on, which will make patent attorneys very reluctant to cooperate with an examiner, and say, okay, here's my invention or here's the -- you know, the core issues of patentability, or I'll stipulate to anything, frankly, but that this is old or that this would be obvious or that all these other issues. With the court focusing very closely on every word that you say in those realms, it's going to be difficult I think

for the Patent Office to make much progress in some direction like that that the Patent Bar doesn't just, you know, erupt violently almost, that the court is just going to destroy whatever patent that proceeds down that direction.

I think that the Patent Office will have a very difficult time following Jeff's recommendations, well-intentioned though they are.

Thank you.

MS. GREENE: Well, I want to thank you all very much for coming and participating today. An incredibly nuanced, thoughtful conversation dealing with some difficult issues, always searching for limiting principles. And I want you all to please be sure, if you want to submit additional things to the record, publications, I know in particular a lot of the professors have websites that list lots of their research and writing, fantastic resources as well. Thank you.

We will be starting up at 2:00.

(Whereupon, at 12:15 p.m., a lunch recess was taken.)

AFTERNOON SESSION

(2:00 p.m.)

MR. BARNETT: My name is Michael Barnett, and I'm a staff attorney here at the Federal Trade Commission. I would like to welcome you to this afternoon's hearing. "Patent Criteria and Procedures, International Comparisons."

Joining me today are my colleagues from various governmental agencies. I would like to introduce at two seats down from me, Susan DeSanti, Deputy General Counsel for Policy Studies at the Federal Trade Commission; Suzanne Michel, Counsel for Intellectual Property at the Federal Trade Commission to my left; Sue Majewski is directly to my right, she is an economist at the United States Department of Justice; three down from me at the end of the table is Robert Bahr, Senior Patent Attorney at the United States Patent and Trademark Office.

Gathered with us today are representatives from academia and the legal community to provide us with their insight and experience into patents within their fields, and hopefully, into industries in general. In my opinion, I think this is an impressive group of individuals who are distinguished in their fields, and I am anxious to hear their thoughts.

To my far right at the end of the table is Rick Nydegger. Rick Nydegger is the founding shareholder of Workman, Nydegger and Seeley, which specializes in intellectual property law. He is currently an adjunct faculty member at Brigham Young's Law School.

He has worked closely with the PTO in the development of several important policy initiatives over the years, including as the principal author of the AIPLA's response to the Commissioner's request for comments on computer-related innovations. He is currently First Vice President of AIPLA and was recently inducted as one of its Fellows.

Next to Rick is Ken Burchfiel. Kenneth J. Burchfiel is a partner at Sughrue Mion, PLLC in Washington, D.C., specializing in the chemical arts, with experience in photographic, pharmaceutical, petrochemical, polymer, biotechnology, textile, and general organic and inorganic chemistry and industrial chemical process technology.

He was the first American patent lawyer admitted to practice in Japan under the reciprocal foreign practicer statute, opening a firm branch office in Tokyo. He was a visiting scholar at the Max Planck Institute in Munich in 1992, where his field of research was patent law protection for biotechnology

inventions along with comparative law and legal history.

Next, we have Steven Maebius. Steve is a partner at the Washington D.C. office of Foley & Lardner, where he is the co-chair of the Washington Office Intellectual Property Department.

He is a former patent examiner of the United States Patent and Trademark Office, where he examined patent applications in the biotechnology and pharmaceutical fields.

He co-teaches International and Comparative Patent Law at George Washington University Law School. He has been a Visiting Associate Professor of Patent Law, conducting research at Tokyo University's Research Center for Advanced Science and Technology. He is on the Advisory Board of the NanoBusiness Alliance, an association dedicated to serving the needs of nanotechnology businesses.

To my far left we have Robert Stoll. Robert Stoll is an Administrator for External Affairs in the Office of Legislative and International Affairs at the United States Patent and Trademark Office.

He has been a patent examiner, working in the area of metal containing complexes and compounds and a supervisory patent examiner, supervising the

examination of classified chemical applications, radioactive bio-treating compositions and liquid crystals. He holds a Bachelor of Science degree in chemical engineering from the University of Maryland and a Juris Doctor degree from Catholic University.

Next we have Mark Janis. Mark Janis is a Professor of Law at the University of Iowa College of Law where he teaches and writes in the fields of patents, trademarks and unfair competition, and intellectual property and antitrust.

In 2000-2001, he was the recipient of the University of Iowa Collegiate Teaching Award. He has published several articles on domestic and international patent law and is co-author of a two-volume treatise, Intellectual Property and Antitrust, with Hovenkamp and Lemley. Prior to joining the Iowa law faculty in 1995, Professor Janis practiced patent law with Barnes & Thornburg in Indiana.

Finally, we have John R. Thomas. Jay is an Associate Professor of Law at George Washington University Law School here in Washington, D.C. He also serves as Visiting Fellow in Economic Growth and Entrepreneurship at the Congressional Research Service, as well as an instructor at the PTO Academy.

Previously, he was a Visiting Scholar at the

Max Planck Institute in Munich, and at the Institute of Intellectual Property in Tokyo. Formerly, he was a law clerk to Chief Judge Helen Nies of the Federal Circuit.

With that, I think we should begin. Before we begin the discussion portion of the hearing, let me start with some rules of the game. Basically, if during the course of the discussion you would like to contribute, please stand your name-plate on its end. That way we could call on everyone, and no one has to raise their hands or anything like that, and we will get to everyone in turn.

I think a good place to start would probably be with re-examination, and the re-examination system in proceedings in the United States, and hopefully, to evaluate it in the context of similar regimes in other countries and throughout the world. Suzanne, would you like to start?

MS. MICHEL: I will start. Because one of our goals today would be to compare and contrast the United States system with European and Japanese systems, and particularly, what we might learn from them, I would like to begin with just a very brief overview of the re-examination system in the United States, and perhaps, with a particular emphasis on the new inter partes re-examination process.

Would anyone like to volunteer for that task? I see Jay pointing to Mark.

MR. JANIS: I did a little bit of this yesterday, so I will recount some of my comments from yesterday, I suppose. You can add or steer me in a different direction if you wish.

My take on the big picture in re-examination is that the United States never quite reached consensus on the important question of what it exactly wanted out of this administrative scheme. Did it want a simplified error correction scheme, or did it want a true full-fledged administrative alternative to validity litigation?

I think for a variety of reasons, perhaps, the reasons of political compromise or perhaps because no one really asked some hard questions, no consensus was really reached. We ended up with a system that was called re-exam and has many characteristics of a more simplified correction scheme, but occasionally, even in the contemporary legislative record, was justified in part on the basis that it could provide an alternative to litigation. So, right from the very beginning it was this mixed character for this scheme.

I think that practice under the original ex parte re-examination scheme revealed that it was flawed

in many ways, or at least revealed that it didn't meet the need for an administrative alternative to litigation.

So, in time, legislative initiatives were directed toward that end. And instead of completely scrapping the system, starting over with a system that was designed to operate as -- I will call it an opposition system for short -- but designed to be an administrative alternative to litigation, again, because of political reasons, perhaps because of misconception or misunderstanding, the decision was made to tinker with the existing re-examination system, try to give it some inter partes character.

So, the 1999 reforms eventually gave us that. They gave us some enhanced third-party participation in what previously had been a largely ex parte scheme for re-examination of patents, but along with that came a large number of provisions, particularly provisions relating to estoppel, against raising validity claims later in litigation.

So, these alone were such great disincentives to third-party participation in inter partes re-examination, that I think it was predictable that this system was -- like someone said yesterday -- "dead on arrival." It's a little too early to say whether

that's really the case.

Steve Kunin said yesterday that three inter partes re-exams have been filed. Now, I don't know how -- these only applied to patents that were filed after 1999, so, it's maybe a little early to say it's a total failure.

But many of the aspects of re-examination that were discouraging were retained. I think the major example is that re-examination still can only be based on a very limited range of validity arguments. They have to be based on arguments based on patents and other documentary prior art. There are many other validity arguments that range, of course, well beyond that.

So, this current state of U.S. re-exam laws that we have, this sort of a mongrel system, that is, it is trying to serve as an administrative alternative to validity litigation, but I think is doomed, because I don't believe it was ever really designed to serve that function to begin with.

I will end by saying that's to be contrasted with other systems, notably the European opposition system, which has its own problems, but does not have some of these flaws that I have spoken of in connection with the U.S. re-examination system.

MS. MICHEL: Mark, can I get you to give us just a very mechanical walk-through of how that procedure works?

MR. JANIS: Sure. The re-examination system begins with the initiation of a request by either a patent owner or a third party. It can be initiated by the Patent Office as well.

If a third party initiates the re-examination, the patent owner has an option to file a patent owner's statement. Many patent owners don't do that, because filing of the statement allows the third-party requester the opportunity to file a reply. So, that's the initial stage of the process.

Proceeding from there, the re-examination process, the statute provides that examination proceeds like other patent examination. Under the current statute, there are now two branches to this procedure; there's an ex parte procedure and an inter partes version of the procedure.

Under the inter partes branch, the third-party requester has an opportunity to comment on office actions that are issued by the examiner, but does not have an opportunity to participate beyond that. That's not strictly true, there's only limited opportunity beyond that.

MS. MICHEL: So, within this U.S. system, does the third-party questioner have any ability to participate in examiner interviews?

MR. JANIS: They do as I understand it. Now, there have been three inter partes proceedings, and I couldn't tell you if that's actually happened or not. I believe that the regulations provide that third parties can participate in that. I, perhaps, can stand corrected on that --

MR. STOLL: No, they do not.

MR. JANIS: I anticipated that would be a huge problem, and I could understand why the regulation is written that way. So, thanks for the correction on the regulation. That's not provided for as a matter of the statute, that's left open for regulation.

MS. MICHEL: If the examiner ultimately maintains a final rejection of the application and the patentee appeals to the Board of Patent Appeals and Interferences, what are the third party's abilities to participate at that point?

MR. JANIS: Limited abilities to participate, and that's been the subject of current legislative efforts. So, as the inter partes statute currently stands, certainly the third party does not have the ability to appeal to court.

As I recall, the third party has the ability to appeal to the Board -- I have to look around to see if I'm correct on that.

MR. STOLL: That is correct.

MR. JANIS: But the third party does not have the ability to appeal beyond that to what would ordinarily be an appeal to the Court of Appeals for the Federal Circuit.

MS. MICHEL: So, ultimately if the examiner decides to allow the patent, then the third party requester can appeal to the Board of Patent Appeals and Interferences challenging that grant. Is that right?

MR. JANIS: That is correct, yes.

MS. MICHEL: But then if the Board were to decide to grant the patent, the third party may not appeal to the Federal Circuit.

MR. JANIS: That's the current state of the law, yes.

MS. MICHEL: Bob, would you like to make a comment on that?

MR. STOLL: On the systems themselves. Let me explain the way I'm understanding things the way we currently have them. We actually have two systems running right now. We have the ex parte system and third-party system. They are separate systems.

The ex parte system is basically unchanged as it has been going forward for many, many, many years now. The third-party system is the new system that is created by the AIPA.

I would like to state that I believe the third-party system is unworkable as it's currently formulated, and I do not anticipate there will be much change. There are only three that have been filed under that system.

I think the original idea with respect to making a third-party system was to be able to have a system that handled more than just written prior art and possibly even allowed for more discovery and more discussion with respect to it. Something cheaper than going to court, something that allowed the Office to be able to handle a process much more simply than is currently being able to be handled by the Court of Appeals for the Federal Circuit.

I think that the fact that the third-party system requires that anything that was raised or could have been raised during that process would very much inhibit the ability for an attorney to persuade a client to go in that direction. I do not anticipate that that third-party system is going to be used in any large manner in the United States at all.

MS. MICHEL: Is that the reason you refer to the system as unworkable?

MR. STOLL: Yes.

MR. BARNETT: Ken, you have a comment, but in the process of your comment, I would like to know how you're advising your clients to deal with the re-examination process, and the effects they have on your practice. Also, could I get everyone to speak in the microphones, because it's easier for the court reporter in that sense.

MR. BURCHFIEL: With respect to the question of appeal, Section 315(a) of the statute deals with the appeal rights. The patent owner is entitled to appeal to the Board of Appeals and to the Federal Circuit.

A third-party requester who is unhappy can go to the Board, but not to the Federal Circuit. A really serious, serious problem with this statute is that although a third party can participate in the Board proceeding, a third party cannot participate in the Federal Circuit appeal if it's taken by the patent owner. That is just a killer.

Certainly, no one in his right mind would give away the chance to challenge a patent in district court litigation if it's going to be shut down at the Board. It is not conceivable that I would recommend to any of

my clients that you pursue this kind of thing.

With respect to the ex parte re-examination system, I think it's worth noting it's really ex parte only in name. I have just been through litigation where we filed a re-examination request; it was granted.

During the course of that re-examination, the patent owner would file a paper. We would file another re-examination request responsive to the paper, and that would be merged and considered by the examiner along with evidence and affidavits.

After the next response, we filed a third request for re-examination. After the next response, we filed a fourth request for re-examination. So, we participated as fully as possible to the existing system. It is something that the Patent Office does not approve of --

MR. STOLL: You are right.

MR. BURCHFIEL: -- and yet, the Commissioner denied our request for a fifth re-examination, but we had to take a run at it.

I think that there's one big, big benefit to the inter partes system, and that is that Section 318 of the statute gives a patent owner who files a request for re-examination during litigation a stay, a stay of

the district court litigation.

In effect, the patent owner can stop litigation potentially for years while the Patent Office considers this, and the patent owner can go on and conduct as many ex parte interviews with the examiner that is helpful or convenient, weighing the scales very much, in our view, in favor of confirming the patent claim.

MR. BARNETT: Steven, I would like to hear your comments.

MR. MAEBIUS: I agree pretty much with what Ken said, and I just wanted to point out that the Patent Office did make two minor improvements recently to both types of re-examination practice by requiring that a request for re-examination has to be handled by an examiner other than the original examiner that issued the patent.

They also require a patentability review conference before the patent is either granted or an appeal goes up to the Board where three examiners have to participate and discuss the issues before it goes to the next stage.

At least in my own practice, that's led to a modest increase in the use of it. However, it still falls short of being an effective alternative for all the reasons you just heard as being an alternative to

litigation.

MS. MICHEL: I was just going to call on Rick, and I suggest we then move on to discuss the European system.

MR. NYDEGGER: I will just comment very briefly, I more or less agree with everything that Ken has said. However, I am going to step out of my role for a moment. I'm appearing here today on behalf of the AIPLA, but stepping out of that role simply as a private attorney who has represented clients in that proceeding, I would disagree just slightly with Ken's comment that ex parte re-examination really is inter partes, in a sense. It's very, very limited.

The third-party requester only has an opportunity to submit comment, short of the kind of procedural creativity that Ken described, up until the initial decision as to whether to grant the request is handed down. Once that decision is made, from that point on, the examination process is just like it is in the normal patent application -- it's entirely ex parte.

For that reason, from my experience at least, defendants or potential defendants very much shy away from that proceeding, because they would much rather have all of the procedural safeguards that go with the

plenary right to cross examine, take testimony, and so on, in the context of testing a patent's validity.

MS. MICHEL: All very interesting points, thank you. I would like to talk now a little bit more about the European opposition system. In particular, some of the interesting features we could bring out and discuss here today are: At what point in the proceedings of a patent's life does the opposition proceeding occur? What kind of issues can be raised in the opposition proceeding? How is the opposition proceeding conducted; is it more like a patent examiner in his office, or is it more like a trial? Is there anyone who would like to volunteer to discuss the European system? Yes, thanks Rick.

MR. NYDEGGER: Again, stepping a little bit out of my stated role here. I have been through a number of oppositions in the European Patent Office. We are currently involved in several in our office, one of which I'm directly handling.

There are frankly some very real concerns, I believe, that come out of the way in which that opposition procedure works. For example, in one of the oppositions that I was involved in, we met with the opposition panel which consisted of three examiners, one of whom was the original examiner who up to that

point granted the claims and the disputed application.

On the question of patentability that was raised by the opposers, there were certainly prior art documents of record. There were maybe three or four of them, and then discussion occurred in the course of that opposition proceeding on a rather informal basis about what those documents did or didn't teach.

Now, up to that point, I don't have too much quarrel with how the opposition proceeding was handled. Argument pro or con about what a prior document does or doesn't stand for, I think is pretty much fair game in an opposition proceeding like that.

The part where I start to depart and have frankly some concern about the way European opposition works is that, toward the end of that hearing, one of the parties brought an expert witness just by way of closing.

As the panel is getting ready to go out and make its decision, it turned to the parties and invited each of them to make any closing comments. One of the panel turned to the party who had brought with him this particular expert, and he spoke up and proffered on the spot gratuitous, unsworn, untested testimony about certain things that, from his point of view, were well-known in the art. None of which, I might add,

were documentary prior art of record in the case.

As it turns out, much to the surprise of a number of people in the opposition, the panel came back and based their decision on that gratuitous testimony. Oppositions that are handled in that manner are bad from a policy perspective. It sort of turns the proceeding into almost a shootout at the OK Corral.

MS. MICHEL: Could you explain how a typical proceeding would operate? That sounds to me like an atypical proceeding. Could you just give us a sense of how the system operates in the sense of when a third-party files its opposition, what kind of documents it can send in? What kind of arguments it can make? Then, tell us what actually occurs, what kind of ground rules are there for the proceeding itself?

MR. NYDEGGER: In Europe it's very, very liberal. What I have found is that you can frankly submit almost any kind of evidence or testimony that you might wish to.

You can submit affidavit testimony in connection with a response or reply to the other party's arguments or their brief. As I said, you can bring witnesses, if you will, so-called witnesses. They are not sworn in, no one cross examines, and the

opposition panel simply listens to what they have to say.

I think some of this derives from the differing legal frameworks from which people in Europe come from. You tend to get people on an opposition panel, some of whom have orientation legally arising out of common law principles. Then you get some who have legal orientation arising out of civil law kinds of experiences and principles, and they are very, very different. So, that's part of what's frankly troubling, I believe, about the European opposition system.

I will say, stepping maybe into my roll for a minute now on behalf of the AIPLA, the AIPLA has gone on record as supporting early, true inter partes opposition proceedings. Our Executive Director, Mike Kirk, gave testimony on that about a year ago in oversight hearings that Congress held with respect to business method patents.

Under that proposal, the proceeding would be in addition to those re-examination proceedings that are presently available, would require a third party to initiate an opposition proceeding within a very short time period after the patent issues, for example, one year, and would permit the third party to challenge the

patent on the basis of Sections 102, 103 and Section 112.

The opposer would be permitted to participate before the USPTO in generally the same manner as a third-party requester is now permitted to participate in inter partes re-examination, with the very important difference that the third-party opposer would be permitted to appeal and to participate in an appeal of a decision by the Board to the Federal Circuit.

The AIPLA believes that this would provide several benefits. First, a balanced approach between the interest of the patentees and the public to remedy the possible issuance of overly broad patents in a timely fashion.

Secondly, by requiring such oppositions to be filed early, third parties would have to come forward before the patentee has invested large sums of money in commercialization, and while the patentee can still file a reissue application so you can broaden claims or claims that otherwise would avoid the art coming out of that kind of proceeding.

MS. MICHEL: Could you contrast with us how that proposal differs from the European system?

MR. NYDEGGER: One very important difference is our difference in legal framework. I could not imagine

that the USPTO would not employ appropriate procedural safeguards with respect to the kind of evidence and testimony submitted.

Moreover, Sections 102, 103 and 112 would raise issues, it seems to me, that are less susceptible, in some respects, to the kinds of free-wheeling evidentiary problems that the European opposition proceeding is susceptible to.

MS. MICHEL: Could you clarify that? In particular, is 101 -- and by that I mean utility, patentable subject matter -- specifically or intentionally lacking from the list of possible challenges in the proposal you just laid out.

MR. NYDEGGER: Well, again, from my own personal perspective, I could not see why that couldn't be included as a potential part of this type of an early opposition proceeding. I frankly think that that's not a bad idea.

MR. BARNETT: I'm just curious. It may be my lack of knowledge of the situation, but given the amount of time and expense that's typically associated with discovery in the United States, say, in the litigation context, is it possible to really effectively or efficiently allow additional information with the procedural safeguards that you are thinking of

while at the same time avoiding protracted discovery in a re-examination context?

MR. NYDEGGER: That's a good question. I frankly think that there would still be a fair number of litigants on the defense side that would prefer not to use this type of proceeding out of that very concern.

On the other hand, it is an option, and it is one that does provide a much larger scope and basis for challenging the patent in a timely fashion. Because of the lower cost, I think that there would certainly be a larger number of people that would use that proceeding.

Clearly, where you have three filings currently to date under the re-examination provisions of the AIPA, that is virtually no effect. It is, for all practical purposes, unsuccessful.

I think this type of proceeding would offer a viable alternative, particularly for companies and entities that do not have the kind of resources to engage in large-scale major litigation. It is a viable option.

MS. MICHEL: Jay, you had a comment?

MR. THOMAS: Well, my specific comment, I think the moment has passed, but let me offer a few

observations on some of the questions that you have.

Mr. Nydegger is exactly right, the procedural safeguards of these oppositions of the EPO is very lax. I was very shocked as a young man, my first of eleven or a dozen of these procedures, going into downtown Munich where these oppositions are held.

It's a sense of justice west of Pecos. Affidavits are submitted by professor such and such saying any of my grad students could have done this. Then there's another affidavit from the other side saying this is the greatest invention ever. Where are these affiants? Can we cross examine them? It's a very free-flowing procedure.

Then the three of them walk out, they make their decision, and come back in. You wonder how much deliberation has gone on. It's a much different norm in a civil law regime than our own.

MS. MICHEL: Are there always three decision makers?

MR. THOMAS: There's usually three, and one doesn't say anything, the junior one. But yes, those boards are three.

MS. MICHEL: Give us more of a flavor of what these proceedings are like. Are they like arguments before an appellate panel, or are they more like -- are

there witnesses or questions with direct examination?

MR. THOMAS: You could bring in just about anyone you want, anyone of interest. I would say it's much more like this discussion than what you would consider a tribunal.

If I could say a few more things before my time is past. Certainly, procedural safeguards, we expect them. The question is, can a patent office do them? That's to the extent that we want a full-fledged administration revocation proceeding that is as good as what could happen in court, I believe a patent office loses the ability to do it because of the technical and legal qualifications.

Oppositions raise major public goods problems, because having a patent struck down is a public good, and there are collective action problems that prevail. Which one of us industry participants is going to strike down the patent?

I think opposition proceedings are something of a panacea, because one problem is motivation to bring the opposition. In civil law systems, where invaldity cannot be decided in the judicial forum, oppositions are very attractive.

But in other systems where it may be easier to settle out, it may be easier just to send a prior art

reference to the patentee and not formally challenge it, it's easier to settle litigation -- like Amazon.com recently, where there's lots of invalidating references, but the parties would just settle rather than take the invalid patent off the books -- likely invalid, I ought to say -- those raise problems.

Delay is the final concern that ought to be discussed. Pre-grant opposition seems to take forever at the EPO. We just have not had a system where they seemed to have worked. Especially in systems like Europe, where the longer the patent stays at the EPO, the more money the EPO makes.

Post-grant sounds more attractive, but at that point, unless you are willing to have a full substitute for the traditional forum, it does not seem to work very well. Thank you.

MS. MICHEL: Can anyone give me an idea of what a long time is? How much of a delay is caused by these oppositions?

MR. NYDEGGER: In the one that I'm currently involved in, we are going into the eighth year now. The point I was going to make is that the European experience is also very insufficient.

Once you get through the first round of the opposition, you have the option to go through, yet,

another round, but it is not a true appeal in any sense. It is, in fact, a de novo opposition proceeding just like the one you went through, now just with a different panel.

So, again, predictability, efficiency are, frankly, sadly lacking in my experience in the context of the European procedure.

MR. THOMAS: If I could pipe up one more quick comment, the EPO is also not effectively subject to judicial supervision. That's a big difference between the USPTO and the EPO.

MR. NYDEGGER: I couldn't agree more, absolutely.

MS. MICHEL: Ken, please?

MR. BURCHFIEL: I have one brief point, and that's with respect to the procedural safeguards. From the view of one who's practicing, they are the essence of the right in the Patent Office, and there's a reasonably effective method of taking testimony and conducting cross examination in interference proceedings.

Evidence is presented by affidavits. An opponent has a chance during the testimony period to conduct cross examination, under oath in deposition, and follow that evidence.

From my point of view, any re-examination worth doing would have to give the opponent a chance to cross examine and submit the depositions.

MS. MICHEL: Well, that is an excellent point, and something I have been wondering about when we talk about the ability of the PTO to handle an opposition-type proceeding, and what we could learn from interferences about the PTO's ability to handle a more adversarial-type proceeding than it normally deals with.

I'm going to see if Mark has anything to comment on. At some point, we would like to address that topic, because I think it's an interesting one.

MR. JANIS: Mike Barnett asked the right question about how these procedural safeguards are going to be implemented, and it probably expresses a little bit of skepticism, appropriately, about whether they can be. I don't think the record is all that good.

I don't know that so much for interferences. I may be agnostic on that. But interferences teach us that you need a fairly elaborate regulatory scheme if you are going to have an administrative inter partes proceeding. It, at least, tells us that. It's not going to be easy to implement this scheme. It's going

to be a lot of regulations and a lot of complexity.

So, for me the question is, is it worthwhile to give this a shot? Is it worthwhile to experiment with such a system and see whether we could do it? I'm persuaded that it is worthwhile, given the extremely high cost of litigation.

So, we may end up with something that's administratively complex and not all that cheap, but we still may be better off than not having an effective system at all. It does really depend on the ability to elaborate good procedural safeguards, and that's a challenge, to be sure.

MS. MICHEL: Robert Stoll?

MR. STOLL: I want to address your issue with respect to the ability of the Patent and Trademark Office to handle a more complex proceeding. I would agree that currently we are not set up to be able to do a full court-type proceeding. We would have difficulties implementing such a thing.

That all being said, if the Hill decides that that is what they want us to do, we would be able to set up a system where we could do cross examination, where we could do discovery. We can set up exactly what is done. We administer the laws.

If the court deems that its functions are best

served there at the Patent and Trademark Office to do a full third-party re-examination, we, of course, would do it. One of the reasons we do not have third-party participation in discussions right now is because our examiners are not trained in the manner that would allow us to do that type of thing.

MS. MICHEL: By "discussions," do you mean examiner interviews?

MR. STOLL: Yes, I do.

MS. DESANTI: Is there a difference between the opposition system that the AIPLA was proposing and district court litigation, in the sense that for litigation the defendant needs to have received a "threat letter" or demand letter that would give someone standing?

Whereas, in the opposition that you were proposing, it is contemplated that there would be a right to challenge, indeed, a duty to challenge, within one year, so there would be less of an issue of the strategy that we sometimes heard that occurs around sending out a letter that implicitly does indeed raise the notion that litigation might ensue without, in fact, triggering the standing.

MR. NYDEGGER: I think that's a fundamental difference. There is no jurisdictional requirement, as

such, in the early post-grant opposition proceeding that we are talking about.

It is not like litigation, where if you are a defendant, in order to challenge the patent, there has to be a jurisdictional threshold in terms of whether the defendant has been sufficiently threatened, if you will, that there is a real case and controversy, which could then give rise to the district court's jurisdiction.

That's not the case in the kind of proceeding that we are talking about. In fact, quite the contrary. I think it's really designed to motivate the public, if you will, to become more proactive. If they think, for example, that the Patent Office has not discovered the best prior art, or somehow did not apply the prior art that it did have in the correct way, it has a chance to do something about it early on, rather than wait until they find out there's a problem and they're threatened with litigation or sued and then involved in protracted litigation procedures.

MR. BARNETT: Steven, you have some thoughts? I would like some feedback and ask your thoughts as to how the system works in Japan, if you could add that to the mix.

MR. MAEBIUS: Well, I was just going to add

first of all that in Europe, the lack of estoppel is a problem. We had a patent that went through the whole opposition proceeding, then it was litigated again in Germany under various same prior art, and it was upheld there. Now, it's under litigation again in the Netherlands.

So, that's a larger problem that Europe has, because it's a collection of different countries, but one that we could solve in the United States by just maintaining the estoppel effect.

MS. MICHEL: Was the opposition party also the litigating party so that the no estoppel rule applies?

MR. MAEBIUS: Same parties, same prior art. With respect to Japan, they have a pretty good system over there. You have to file within six months following the grant and the patent, and it includes all areas of patentability, you know, not just the print and prior art, they are equivalent of 112 issues, enablement and description.

There's a right of appeal for both the patent owner and the requester, full participation along the way, and opportunities to amend the claims or fix them or narrow the scope, if necessary, at various points along the way.

I have spoken to companies in Japan, and they

would actually prefer to bring an opposition proceeding if they were within the time limit, as opposed to joining litigation in court, because the Japanese Patent Office is a better forum for deciding these issues of patentability.

MS. MICHEL: Is there an estoppel -- or what is the estoppel rule in Japan?

MR. MAEBIUS: As far as I know -- and I'm not expert in that -- I don't think there is an estoppel rule in effect.

So, you could have simultaneous litigation in district court over there, and opposition proceedings going on in the JPO.

MS. MICHEL: Have you heard anyone explain why they prefer the Patent Office as a forum rather than court litigation if given the option in Japan?

MR. MAEBIUS: Well, one of the reasons is that, I guess, there has been a very recent change that the Japanese Patent Office has increased the speed at which it is handling these proceedings.

For awhile they had a pendency problem, and some of them were dragging out, but lately they have increased the speed. Also, I think it's just because the examiners have a better ability to understand the prior art, and it's perceived that a fair result would

take place within the Japanese Patent Office.

MS. MICHEL: Do you have any sense of the expense associated with pursuing opposition in Japan as opposed to litigation?

MR. MAEBIUS: I don't have much cost information on that, but I think it's generally cheaper, because the litigation -- in Japan, though, there's not much discovery, so the litigation is not nearly as expensive as it is in the U.S. so, I'm not sure there is a big cost difference.

MS. MICHEL: Ken, you had a comment?

MR. BURCHFIEL: Yes. I am by no means an expert on Japanese law, but I don't think the Japanese Court of First Instance has any jurisdiction to consider patentability issues. They don't arise in that context, because the Court can't consider them.

I think you go from the opposition proceeding probably to the Tokyo High Court. Jurisdiction from an infringement action would also lie in the Tokyo High Court.

Infringement litigation in Japan is rather extraordinary, because there's no trial, there are generally no witnesses, and the proceeding consists of a truly interminable series of sort of informal conferences with the judge.

The parties come in and have these rather vague discussions with the judge, and the judge says, "We will talk to you later on," making settlement a very, very attractive alternative in Japan.

MR. MAEBIUS: Just one quick comment. There's actually a recent case that allows the district court to handle validity of a Japanese patent if it's "clearly invalid." Only if it's clearly invalid, whatever that means.

MR. THOMAS: If I could just chime in briefly, I think that was correct, the jurisdictional route you described. I'm married to a Bengoshe, which is my sole qualification in this arena.

The Texas Instruments case you are referring to, the Supreme Court said that we could consider invalidity, but I think it only is in regard to infringement matters, though. So, I think the patent still stays on the books, it's just unenforceable in this lawsuit against the particular claimed infringement.

So, there are some nuances to this no validity in the courts, but I don't think it really goes to solve the problem. So, yeah, opposition is the only legitimate route to go in validity.

MS. MICHEL: We are getting near the end of the

re-examination discussion. Does anyone have any thoughts on how it might play out in the Patent Office if we were to have some sort of proceeding which allowed challenges based on criteria other than obviousness and anticipation, for instance, enablement, and what kind of evidence would have to be put into play, and how we would, therefore, have to change the system in order to make that work? Mark?

MR. JANIS: I have just a brief comment, I guess. To be sure you would likely be getting into more affidavit evidence or more nondocumentary evidence. It may seem to be more complicated, and it may seem problematic, yet, as in a matter of first instance examination, the examiners are theoretically engaging in those inquiries anyway.

So, I think these arguments about how it would be so complicated and take examiners into this new realm, it may be that we should not have examiners adjudicating these matters; that it will take the Patent Office into this new realm.

However, that argument always has to be tempered by the fact that, at least theoretically, the examination is supposed to be considering these issues in the first instance anyway.

MR. MAEBIUS: Right now you could actually have

an enablement or written description issue considered in a re-exam if there's a situation where the patent is a continuation in part of an earlier patent and your argument is that there is lack of support in the parent case, and intervening prior art publications apply.

So, the way you do it right now is by way of expert affidavits. We would find a suitable expert and argue that there's not enough support in the parent priority document, and therefore, this intervening art applies. So, it can be done on an affidavit basis.

MR. BARNETT: I'm going to kind of shift gears a little bit, but staying a little bit on the theme, I guess, outside of the context, though, of re-examination.

Are there reasons why litigation seems to be the preferred method in the United States? In other words, are there disincentives to litigation in the same European systems?

MR. THOMAS: The chief disincentive is simply that validity is just not an available argument. To invalidate, the Court just lacks jurisdiction. Either you have to bring a separate suit within the general judicial system, say, like in England, or there's a separate court like in Germany, which does nullity proceedings, or you have to go to the Patent Office,

per se, and the courts won't do it at all, as for some other countries. So, that's the chief advantage for validity.

In the States, I would defer to more knowledgeable members of this panel, but plainly it's the jury that must motivate many of these considerations.

MR. BARNETT: To some experts, one thing I'm curious about is the standard of substantive validity that we have in the U.S., how does this compare with other systems? For example, in Europe once the EPO grants the patent, and then if you're going to bring an infringement suit or whatnot, where does all this fit in? Does anyone have any thoughts?

MR. THOMAS: I'm certainly aware in other jurisdictions, there's essentially a presumption of validity, and I would say, in some courts like in the Netherlands, there's a very strong presumption.

I think they've often been very quick to bring preliminary injunctions based on EPO grants, but I don't sense an enormous difference. Certainly, some jurisdictions like in the UK, you had to in the past prove your patent valid to enforce it. So, I think there's some variation.

MR. BARNETT: Go ahead, Ken.

MR. BURCHFIEL: If I could make just a very brief comment about inter partes re-examination, I counsel my clients, if possible, to show a date of invention one day before the date of a patent issuance to provoke an interference, because the Congress combined the jurisdiction of the Boards.

Now, the Board of Patent Appeals and Interferences itself has to consider all these issues of validity. And typically, that consumes 80 percent of the Board's time and resources, because you can raise any ground -- enablement, utility, written description, inequitable conduct -- the same as in a district court. It is inter partes, and there is affidavit evidence, and there is cross examination, and there is a right of appeal, right up to the Federal Circuit. So, a vastly, vastly superior avenue than Federal District Court litigation for challenging validity. It's wonderful.

MS. MICHEL: Is that superiority due to speed and expense or is there some other reason?

MR. BURCHFIEL: Well, one of the advantages of it is the expense, because proceedings take a long time, and lawyers get to bill a huge amount of time. So, the expense is a big advantage to the proceeding from our point of view. The real benefit is that you

can raise any issue, you have a right to cross examination, you have a record, and you have appeal. That's all that would be needed in a re-examination system, and it's already done by the Board.

On the other hand, if you were to strip jurisdiction or separate it again into interferences and re-examination, interferences would be disposed of very quickly.

MR. NYDEGGER: Mike, your question about presumption of validity causes me to reflect. I would like to, at least, offer the additional thought that I think that that is also or would be, frankly, a very strong incentive for using early post-grant opposition, as opposed to third-party litigation. Third-party opposers would not face the same evidentiary steep climb, if you will, they might otherwise face if they waited to litigate. So, I think that's a further motivation and inducement for parties to use the early post-grant opposition proceeding.

MS. MICHEL: Well, let me put on my litigator hat for a moment. As a defendant in patent litigation, I would typically prefer to litigate infringement and validity together.

The validity arguments also often give me good arguments for limiting claim interpretations and

sometimes strengthen my non-infringement arguments. I see this, perhaps, as one factor that might influence the choice of whether to go to district court or to choose any kind of opposition proceeding.

Does anyone have any thoughts or comments about that? Yeah, Rick?

MR. NYDEGGER: I think that may be more perceived than real in terms of the distinction, because frankly from my perspective, if I were a third-party opposer in an early post-grant opposition proceeding, I would have absolutely no doubt that my arguments with respect to the art and the claims would undoubtedly be taking into account my own viewpoint as to how those things ought to be interpreted in order for my client not to later be found to infringe should my view prevail.

MS. MICHEL: In a sense then creating a record that's going to influence later claim interpretation anyway?

MR. NYDEGGER: Yes.

MS. MICHEL: All right, that's an excellent point.

MR. BARNETT: We might move to another subject beyond re-examination at this point. We have heard several amounts of testimony regarding just a broad

standard for patentable subject matter in the U.S., and I'm curious as to how it compares to other systems. I might ask John for his thoughts, because I have heard him mention sort of the broad patentable subject matter in the U.S.

MR. THOMAS: I'm reluctant to dip my toe in this water again after this morning because I think we're whipping that dead horse again. But I'll mention briefly, European Patent Convention expressly disallows patents for -- the precise wording escapes me, but it's systems or methods of doing business. It also disallows software per se.

There are very few attorneys who can't get a software patent out of the EPO of the same scope as in the US. I think that the per se means it's a very limited exception. As a practical matter it's wholly vitiated.

Business methods, I suspect a different tenor. To the extent that the business method is software-embedded, then I think you can get them to the same extent as you can here very often. I think a capable patent attorney can get them for you.

To the extent that it's sort of a wholly post-industrial patent, such as things we are starting to see come out here in the States, I still think there

is certainly a break that exists in Europe. We certainly see it in Board opinions.

Certainly anyone can point to an issued patent or two that seems to disregard this, just as every patent office occasionally issues patents that don't meet the nonobviousness standard, but that's the sense of the situation.

Japan, I think, is somewhere in the middle between the US and Europe, very liberal on software, I think perhaps somewhat more liberal on business methods.

UK Patent Office has just issued a statement saying we see no positive benefits that can come from granting business method patents, we would not allow them.

The Executive Branch has entered into a treaty with the Hashemite Kingdom of Jordan saying that Jordan ought to allow lots of patents that issue on software and business methods.

The bottom line is there is variance. Certainly, I think the most extreme use can be found in Europe. Thank you.

MR. BARNETT: Robert?

MR. STOLL: I agree there is variance, but I don't think it's as significant as I keep hearing. I

agree that Article 52 of the EPC precludes the patentability of software or business methods per se in Europe.

However, anecdotally many, many attorneys have told me that they are patenting both software and business methods in Europe. I'm well aware that Europe recently set out a statement saying that they were no longer examining three areas: One being telecommunication, another being pharmaceuticals, and the third being business methods.

The United States, under State Street, has clearly set out that business methods are patentable in the United States. There's a Class 705, related to those that have a technical component or a computer implementation, but it's quite clear no technical component or technical aspect is necessary in the United States.

We have been patenting business methods with the Patent and Trademark Office since the late 1700s. I could pull up patents, numerous patents. We have whole sub-classes related to teaching methods in our directory, those are business methods.

Japan patents business methods as well, although they don't acknowledge that they would patent a business method, per se, but they do need technical

aspects in Japan.

Recently, I've seen a supreme court case coming out of Australia that actually cited State Street. So, Australia now patents business methods without a technical aspect.

All this being said, we have 7,000 applications related to business methods, and very, very, very few of those don't have a technical aspect. We do not have a technical aspect requirement in our statute.

Utility is what you'll find in the Constitution, and usefulness is what you'll find in our statutes. I'm not even quite sure what a technical aspect is or how you make that evaluation, and I don't think it's such a huge deal the way it's being perceived as being some sort of Jihad in Europe and Japan. It's simply not as significant as everybody is saying that it is.

MR. BARNETT: Rick?

MR. NYDEGGER: I really have two follow-up comments to the point that Bob just made. First, I want to read the official communication that was issued by the European Patent Office in January of this year on this point.

What they said was -- and I'm now quoting -- "The EPO wishes to remind applicants that pursuant to

Rule 39.1 PTC, it will not carry out an international search on an application to the extent that its subject matter relates to no more than a method of doing business" -- and then this is the phrase that everybody seems to forget -- "in the absence of any apparent technical effect."

So, the question is, what does that mean, just as Bob pointed out. Well, I want to turn to that question just briefly. In its most recent decision of September 8, 2000, a decision that comes out of the Board of Appeals of the European Patent Office, there was a claim that was presented that is remarkably like the claim that was at issue in State Street Bank.

I would like to invite the panel to contrast the State Street Bank claim, I think everyone is well aware of that claim, as I briefly summarize what this claim is about, and then I would like to talk just briefly about how the Board of Appeals dealt with this claim.

The claim in question to which I referred was Claim 5. It was an apparatus claim that was directed to a data processing means arranged to receive information into a memory. Basically, this was a system for allocating contributions to plan participants in a profit-sharing plan.

The claim goes on to recite, "...data processing means including a processor which includes: A. Average age computer means for determining the average age of all enrolled employees" -- it sounds suspiciously just like configured logic circuits in State Street Bank -- "life insurance cost computing means for determining the periodic cost of said life insurance... administrative cost computing means for estimating all administrative, legal, trustee, and government premium yearly expenses... information defining each subscriber employer's monetary contribution to a master trust; the face amount of each life insurance policy... and periodic benefits payable... to each enrolled employee upon death, disability or retirement." That's Claim 5 in PBS Partnership.

So, what did the Board of Appeals do with that? Well, first of all, the standard that they employed was this -- I'm quoting from the opinion -- "An invention may be an invention within the meaning of Article 52(1)" -- invention here meaning eligible subject matter -- "if, for example, a technical effect is achieved by the invention, or if the technical considerations are required to carry out the invention."

So, what does that standard mean in terms of how it is applied in this case? Well, again, the holding in this case: "The claim, when read in isolation, is amenable to be construed as claiming a scheme for doing business only, as such, which, according to Article 52, should not be regarded as an invention within the meaning of Article 52.

"The appellants' arguments, however, are based on an apparatus consisting of a suitably programmed computer or system of computers. This interpretation of the claim, and in particular of the term 'apparatus,' is supported by the manner the 'computing means' are described with reference to Figure 3 in the application itself." And they go on to say, results in the following: "This basis is accepted by the Board in the framework of the present considerations.

"In the Board's view a computer system suitably programmed for use in a particular field, even if that is the field of business and economy, has the character of a conscrete apparatus in the sense of a physical entity, man-made for a utilitarian purpose and is thus an invention within the meaning of Article 52(1) EPC."

Now, if that's not tracking State Street, I don't frankly know what is. The result in the case is -- to this point, the case is virtually congruent in

all aspects of State Street Bank.

The case did go on to consider the inventive merit of the claim, and rejected it on grounds of obviousness or, in the parlance of the European Patent Office, inventive step.

MR. MAEBIUS: I would like to add to that there's definitely variance between the standards of patentability around the world and in the U.S., but in terms of utility, I think, or industrial applicability as called in Europe or Japan, the standard may actually be lower than it has become recently in the United States.

But there may be differences in other standards that prevent the same breadth of patents from being granted over there. For example, in terms of inventive stuff or obviousness, they may be more likely to restrict the scope of a claim when the broad claim had been granted in the United States.

In Japan, recently some patents have been granted in the biotech area that are of equal breadth or broader than their U.S. counterparts. So some of the standards applied in particular technologies lead to differences than we have in the US.

When you start looking at biotech or particular areas like that, you see that the policies or

examination guidelines at the patent office level play an important role as well as the decisions coming from the courts in those countries.

MR. BARNETT: Ken?

MR. BURCHFIEL: Yes, I know that the discussion focuses a lot on business method patents. I think there are two pretty significant differences, though. Article 53(b) prohibits the patenting of plants, and our Supreme Court has just decided that plants can be covered by utility patent.

A utility patent offers such a broad scope that it is a matter of very significant economic consequence to farmers in the United States, and there's a matter of a huge political consequence to farmers in Europe. So, that's a big difference, although sort of a sleeper.

The other, I believe, is Article 52, Section 4, excludes from patentability methods for treatment of the human body and methods for diagnosis in the human body. That's a pretty significant difference to the pharmaceutical and medical device kind of community. Those are the two that I know of.

MR. BARNETT: Robert, your hand went up so quickly, I suppose I'll call on you next.

MR. STOLL: I just wanted to address some of

that. Plants have been patentable in the United States for a long time, I mean, it's nothing new here. They are covered under (inaudible) by plant certificates in Europe. There has been some recent litigation in the area. Plus, I think Europe under TRIPS is required to cover plants microbial in nature, as well as other biological materials.

Methods for treatment, I want to point out, in the human body are definitely prevented. That does not mean diagnostics in Europe. So you are going to find even there they are expanding. Diagnostics tests outside the body are patentable in Europe. I just wanted to make that clarification.

Many of the arguments that have been made with respect to business methods relate to the processing that was done in the United States early on after State Street.

While I said that they've been patentable, business methods, for many, many years, there were a flood of applications that occurred after State Street when more and more people became aware of it.

The scope of some of the patents that issued may have been overly broad at that time, based upon the fact that the accessible databases were not readily available to the examiners.

So, there was a time period when possibly applications were being issued in an overly broad manner. Since then we have done many things. We have implemented many new procedures to make sure there's a double look, we've got SAWS, we've got different processes in place to make sure that we don't issue overly broad patents.

In fact, the allowance rate in what is called the Computer-Implemented Business Methods, Class 75, has dropped significantly since there have been these new procedures taken into place.

We are not having the same general complaints we are having with respect to business methods, particularly. Every once in awhile you will see a patent issued to a very unusual subject matter, and maybe it slipped out, but that does not necessarily mean it is in the area of business methods either. I mean, there are plenty of mechanical patents that shouldn't be out there.

So, I just wanted to point out I do believe that the actual processing, which was the concern, at least one of them, in Europe and Japan, has improved with respect to it, much in the manner that software patenting itself has improved over the years.

When it initially became patentable, we did not

there, then have the access to the databases that were necessary to be able to do as good a job as we do now. We're seeing very few complaints with respect to the issuance of software patents. The industry has not been turned on its head. We are not seeing the problems there. I anticipate that the same process is being followed with respect to business methods as well.

MR. BARNETT: I might have some follow-up, and, again, this is more from a competition standpoint, in whether it's an emerging industry or in an area where there are new patenting concepts like business methods or something like that where you're getting a flood of new patents, and there's a threat of a flood of overly broad patent applications at the beginning. On the outside obviously there's a learning curve that eventually gets fixed.

What's the impact of all these overly broad patents overall say? Suddenly, you find after the learning curve is taken care of, there's more appropriate patents, but how do we deal with the arguably overly broad patent?

MR. STOLL: If they are significantly over broad, and everyone is aware, they are basically disregarded. Where there's a lack of certainty as to

whether or not that breadth is an appropriate breadth or not, that's problematic for industry, and there's a fear that that would have a dampening effect on invention, and it might if that continued. But they basically become prior art and are useful as a reference against subsequent applications.

I think it works itself out of the system, is what happens. The system has a lot of checks and balances in place, and evolves, and you eventually get the proper breadth of patent application issuing.

MR. BARNETT: John?

MR. THOMAS: I would note SAWS, System Application Warning System, are you familiar with the lingo?

MR. BARNETT: I'm actually not, I figured they were just using their regular jargon.

MR. THOMAS: It's just that the examiner is asked to notify a SAWS officer. The examination proceeds apace, and this is sent. I would like to say a few more words, but first I would like to ask Bob a question, if I may?

Last week a European Commission official was quoting that the grant rate of business methods have decreased from 56 percent to 36 percent. I would ask you, is this rate based on the final rejection rate or

is this based on the abandonment rate of the applications? Because as we know, in patent law there's nothing so provisional as the final, and that people may persist in their applications, and so final rejection rates often do not account for continuations, and we know a lot of continuations are granted later. Are you aware of the statistics of the abandonment?

MR. STOLL: I believe the way we do counts that way, it's abandonments that are occurring with respect to the allowance rate. So, we would count an abandonment without knowing whether or not a file wrapper continuation or continuation was occurring on that.

I heard that being said by Mr. Noteboom as well. I do believe that that was for maybe one month, that's a little low, when you say that. It's lower than the allowance, which I believe is in the 70th percentile, but not quite in the 30s. I think 50 is about the right percentage rate for allowances, recognizing we are only talking about 705, we had business methods all throughout the different classes.

MR. THOMAS: If I could just briefly continue. Again, I would note I would bring some of these documents to the attention of this committee. There are certainly other decisions. There's the Merrill

Lynch case from the UK, which is comparable to the Merrill Lynch case I mentioned this morning, which rejects the application.

There's a Japanese opposition recently. The decision of the opposition division of the JPO, which rejects a patent on the method of giving a marriage wedding gift.

The UK and the French offices have spoken out against business methods, but the German Patent Office seems in favor of them. I think certainly the Pension Benefit Systems case can be read as in favor of -- the European Commission seems to like software patents, but insists upon technical effect.

I really don't want to re-tread too much ground, but I would re-note that the trick that's being done in cases like Pension Benefit Systems, and actually even Merrill Lynch, the British case, it turns out that a patent was ultimately granted upon remand to the office, even though there's this decision that says, "No."

Is that what people are saying? "I don't have a new business method, I've got a new technical trick here. I manipulate my data this way," or "My system is very robust," et cetera.

So, it's sort of in this pre-State Street Bank,

Freeman-Walter-Abele test of saying, "Let's just couch it to make it sound really technical." So, that's the trick.

You know, you can read some of these cases and say, "Wow, look at this invention, it's just like that," but please do remember the underlying argument, which is saying, "I really do have a technical contribution. It's not that I'm selling goods better because I can buy with one click, it's that I got these protocols and robust data and data structure." So, that's the game that's being played. I do not believe that is a robust endorsement of business method patents, but I think it's certainly reasonable; people can differ.

MR. BARNETT: Rick, you had a comment?

MR. NYDEGGER: Yeah, two things, really. One immediately in response to Jay's observation is that there's certainly nothing technical in Claim 5 of PBS that I just read to you. It's absolutely clear that that claim is in every respect of the same type and character as the State Street Bank claim.

Secondly, I meant to make this point, and it slipped my mind as I was making an earlier comment. There are some procedural nuances with respect to European patent practice that underlie this recent

pronouncement not to conduct international searching and the reason behind it.

I believe that's not very well understood, for the most part, but it happens to be this. When doing an international search, for example, the European Patent Office, if it comes across a claim which obviously is nonstatutory, really can't search that claim. There is not much that it can do with it.

On the other hand, in the European Patent Office, if that same claim were presented there, the European Patent Office would issue an advisory action notifying the applicant that this claim has a problem with respect to its eligibility, and the applicant could then respond to that. If that problem is appropriately addressed and resolved, the EPO then goes on to consider the claim on its incentive merit. So, that procedural difference is one of the reasons why this statement was issued.

The other reason, I believe, has to do with its ongoing backlog problem. This was the way of stepping out of a lot of man-hours, if you will, that really don't result in applications that are ultimately filed in the European Patent Office.

In other words, they were spending a lot of time on international searches, with the consequence

that their own applications were suffering because of a lack of manpower, and hence, the need to somehow figure out a way to deal with their own growing backlog. This was one of those ways which they chose to implement.

MR. BARNETT: Well, we got a good hour and a half. Why don't we get up and take a break, and we'll come back at 25 til.

(Whereupon, a ten-minute break was had in the proceedings.)

MR. BARNETT: All right, we're going to go ahead and get started. From the notion of business method patents and software patents, one example that has come up in prior testimony, we have heard, at least for some of the arguably controversial areas of patenting, thinking of those two in particular, is the notion of, perhaps, using a petty patent system for those, or some sort of utility patent or second tier patent system for those.

With that in mind, I was hoping to get some comments from Mark Janis. For starters, if you could just acquaint us with those as a concept.

MR. JANIS: I would be glad do that. Let me just try a couple of notions here. I mean, this label could be applied to a lot of different types of systems.

If you look at the types of systems that have existed, the Gebrauchsmuster in Germany, that petty patent system in Australia that preceded the current Innovation Patent System, some of these systems started out as a sort of a close cousin to sort of a design protection scheme.

They really did not, at the beginning, have much of the character of a true patent scheme. They were for the shapes of mechanical objects and such. That gradually has fallen away, and now modern proposals are truly for what I would call second tier patent systems.

So, their characteristics now -- their eligibility requirements vary. Some of them shy away from more controversial areas of subject matters. So, some of the proposals actually would exclude software and biotech subject matter. For example, just the opposite of some of the US proposals.

In other respects their eligibility standards are now similar to patent eligibility standards, and these modern proposals I'm talking about are proposals for a Community-wide utility model, and also an existing system in Australia called the Innovation Patent System.

In other respects these systems are very

different from general or first tier patent systems in that second tier patent systems typically don't have any substantive pre-grant examination. They only have formal examination, and to that extend they are comparable to systems that are ordinarily called registration systems. They have generally a shorter term than the standard for first tier patents, a 10-year term from date of filing in the latest Community utility model proposal, to give an example.

There are varying approaches as to whether second tier patents would be allowed to subsist in parallel with first tier patents. So, you see a variety of different proposals, some of which say, "No dual protection would be allowed," some of which say, "Dual protection would be allowed to the point where one or the other grants, and then you must elect." Other proposals say that dual protection would be allowed, but no serial enforcement would be allowed, so, you could not sue on a first tier patent, lose, and turn around and sue on a second tier patent. That sort of thing. There's a variety of different approaches to that question.

So, I hope that gives you the general flavor for them. There are other aspects of them we can talk about, but that gives the general outlines.

MR. BARNETT: You know, to step back to the basics a little bit, what's the intended purpose of the systems, of the second tier patent system, I mean, why do them at all?

MR. JANIS: You have to plow through a lot of rhetoric to get to the answer of that question. The popular rhetoric is that these systems make the IP system or patent system more accessible to, for example, small enterprises, because supposedly costs are lower, rights are acquired more quickly.

There's the notion -- and this is an important feature of the systems that I left out -- there's a notion that patentability is easier achieved under these systems, mostly because they often feature softer obviousness standards.

So, I suppose in summary, the selling point would be a quicker, easier, cheaper patent for inventions that aren't quite nonobvious, but are somewhere between inventive in the patent law sense and old, somewhere in this gray area, not quite patentable in the patent law sense, but maybe close.

MR. BARNETT: Bob, you have a comment?

MR. STOLL: Yeah, I do. I think it may be a good time for industrial interests, people who file patent applications to begin discussing a plethora of

products coming out of the Patent and Trademark Office. I'm saying, just discuss. I don't know where that discussion would ultimately lead, but I don't think we have recently had any significant discussions on this.

I'm talking not just about what was mentioned before, some sort of utility model or some sort of petty patent, but also some super patent that has been really examined to death, let's put it that way. There may be a right time for discussions about whether those are of interest. But I have real concerns whether we are picking out business methods patents and saying that they are of different inventiveness, recognizing that that would be a different capability, standards, and different validity determinations there. I don't see why we would make an assumption that they are any more or less inventive than other areas. So, I have some problems when we start talking about a petty patent for business methods applications.

MR. BARNETT: Well, thinking about it in terms of some of testimony from some of the software panels, a lot of the descriptions of the software industry seem to begin to mirror some of the conditions that Mark Janis was discussing, arguably short times of utility of the actual software, soft standards for obviousness and those senses. I'm wondering how that sort of thing

might apply to software and if that's viable or not viable or what your thoughts might be.

MR. STOLL: In those areas the concerns I have heard raised dealt with pendency times at the Patent and Trademark Office, and that there are different industries that have different concerns related to that, that software has a very short shelf life maybe, five years. People who file those applications would like them quicker, because they have such a short shelf life. If so, I think we should be moving quicker on all applications, but they don't necessarily need to pay the second and third maintenance fees, and therefore, they've delegated that to the public.

On the other hand, I am pretty familiar that pharmaceutical companies are much more interested in long-term, they would rather pendency went on as long as possible and get term tacked on at the end.

So, I think we are talking about pendency time and terms, and not necessarily different scopes of validity with respect to the actual examination of the application or how it's treated, which is more along the lines of what a petty patent is. It's a different treatment of the application, and therefore, a different believability as to its validity.

MR. BARNETT: I guess I was thinking

specifically of some comments made two days ago regarding software and regarding how arguably they should have -- this particular testimony I'm thinking of was against patents altogether in the software area. So, I'm wondering whether it's plausible to have a compromise or splitting it down the middle and having a petty patent. Do you have any thoughts on the idea of giving software a different patent scope or different patent validity at that point?

MR. STOLL: I don't believe I would negotiate in splitting down the middle when one person says we should have no patent for software. I would not tend to want to even really get into a negotiation on that. I think we have established in this country the value of patenting software, that it has not caused a great harm in inventiveness, and actually served as basis for many software companies in the United States. You know, I was not privy to that testimony at this time, so I would not move an inch, but thank you.

MR. BARNETT: Fair enough. Mark?

MR. JANIS: I just want to signal my agreement with Bob, particularly the beginning of his comments. The fundamental premise that we ought to have tailored systems for each type of subject matter that comes along. I think that that's just the road to oblivion.

So, I have particular problems with the concept of a second tier patent system across all subject matters. I have a problem with that.

Then I have a greater problem with trying to create that kind of a system and saying we are going to shuttle certain types of subject matter off into it. And in part that arises from comments that I made and others made this morning about boundary problems that are created when you try to break up the patent statute by subject matter. I think that those costs are significant when you try to do that.

MR. NYDEGGER: I want to make a brief comment about your observation about the so-called shelf life for software in terms of duration of patents or that kind of technology.

I think that software technology in many respects is not -- again, I agree with Bob on this -- all that different from other kinds of technologies, and I don't know if there's any empirical data to warrant singling this kind of a technology out.

I represent, in addition to a host of clients in the software and so-called business method, I prefer to refer to it as e-commerce technology kinds of domain, I also represent a fair number of clients in the medical device technology area. We see frequently,

for example, how those medical devices start out with a basic fundamental concept.

I have one client who, for example, as an entrant succeeded in capturing 80 percent of a very significant market, just as a small company. It's a very specialized niche, but they are now into their fifth or sixth generation on that product. That does not mean that the original patents that were issued some 10 years ago are still not operative in terms of the fundamental concept represented by that very unique patentable device.

There are certainly subsequent improvements that have been put in place. I think that software is not unlike that. If you look at the Windows operating system or other kinds of technology, you will see that the basic concepts of some of those software technologies are still as valid today as when they first started out. So, I think one has to take that into account when talking about patent term for these kinds of technologies.

MR. BARNETT: Ken, you have a comment?

MR. BURCHFIEL: Well, perhaps, it's a footnote to a footnote, but Section 2 of the German Utility Model law excludes methods from protection. I don't know if there's a proposal to include methods

with these petty patents or not, but software and business methods are not the kind of thing we are looking to protect by a utility model.

MR. JANIS: Arguments about that, I don't know where the latest proposal stands, because there were amendments to the original proposal, and some of the amendments dealt with the scope of eligibility. So, I don't know where that stands at this very moment.

MR. BARNETT: John, would you like to comment?

MR. THOMAS: I would like to note many of you may not consider yourself an intellectual property specialist, so perhaps you're becoming one. I don't think things are quite as neat as may have been painted. We have separate design patents. We have plant patents. We have plant variety protection certificates. We have semiconductor chip certificates. We have boat-hull certificates that are called design something or other. We have lots of sundry intellectual property rights of all sorts with different terms. So, I don't think things are, perhaps, quite as doctrinally neat as imagined.

Within the Patent Act, we have a separate obviousness requirement for biotechnology. We have a separate term for pharmaceuticals and medical devices. We have separate enforcement provisions for methods of

medical treatment. We have separate enforcement provisions for processes. There are number of other examples. We have separate provisions for business methods already in terms of defense.

The patent system is a very balkanized agency. It's divided into 16 groups, each of which use varying standards that their long administrative experience has suggested that different examination routes go well. For example, interference searches, done extensively probably in biotech, an area where the technical nomenclature is standardized. The extent to which interference searches are done in areas where the technical nomenclature is not standardized, there are persistent accounts available that, perhaps, they are not so rigorously done. There are other mechanisms that go on. So, it would be nice to live in a theoretical world where we could divide it up so neatly, but that's not really the history of our system.

Despite my disagreement on some of the fundamental issues, I also don't think separate patents, certainly for business methods, are a good idea at all. I also think that a separate regime for software patents would also be a disaster.

The big problem with these specialized regimes,

they would have to be interpreted newly again. I think sort of working with what we have and trying to do the best job we can in making sound policy decisions within that framework is superior than some of the proposals for petty patents. On that front, I certainly agree with what I've heard.

MR. BARNETT: Mark, I'm acquainted with some of your critiques of just the petty patent systems or the second tier patent systems. Would you share those with us a little bit?

MR. JANIS: A variety of them. I suppose, I think the main one is that I really think that they would impose very high clearance costs across the board. And I think that it's hard to guage that empirically. It's hard to guage what clearance costs are imposed now by the current patent system and the uncertainties surrounding current patent doctrines, so I suppose that's an easy argument for me to make in some ways. But I'm picturing many, many, many small second tier patents suddenly out there, all of which rational business actors have to now account for when deciding whether they have freedom to operate. So, I think that that's the major criticism I would have. I don't think those are adequately accounted for in the proposals that exist currently.

I also think that the proposals that suggest that costs really would be reduced -- acquisition costs really would be reduced -- I think that those arguments are overstated, because I tend to think that lawyer fees account for most of the acquisition cost. And I actually don't think that those would necessarily be much lower for second tier patents, because they are not going to be examined. You have to get it right, you may not be able to amend your claims later. There may be a lot of reasons why those are not so much easier to draft -- you're going to be drafting claims anyway, and so forth.

Also to the extent that second tier patents would ever have to be enforced -- and I realize it's hard to know what percentage of them would actually be litigated -- but to the extent you actually have to go and enforce those, I think the costs there are going to be substantial as well.

In some respects, those might be more costly to enforce than regular patents, because you would not come in with the presumption of validity. I don't know how you could possibly justify that. You would not be likely to ever get a preliminary injunction, I shouldn't think, on a second tier patent, because there is no indication of likelihood of success on validity,

I shouldn't think. So, these sorts of things make me think that enforcement costs would be particularly high to the extent that those patents would be enforced.

I think, as well, if you get to asking the really broad questions about what these rights really are going to incentivize, I also think the answers are not very acceptable. For example, there's a growing recognition that patents give incentive to attract venture capital. I think very quickly second tier patents would be viewed, properly so, as extremely insecure rights, and they would not adequately perform that function. That's a catalogue of some of the criticisms.

I think second tier patent proposals are very insidious in a way, because I think they sound politically attractive in many ways. I really fear that this kind of vision can be easily sold to small businesses, small entrepreneurs, and I think they would be getting pieces of paper that are practically worthless.

MR. BARNETT: Steve, you had a comment?

MR. MAEBIUS: Yeah, I just wanted to say there may be less of a need for that kind of a system also, because of provisional rights which we now have at 18 months from publication.

MR. BARNETT: Ken?

MR. BURCHFIEL: On the question of petty patent system, especially for software, I think that discussion would probably have to begin with the Semiconductor Mask Protection Act, that's codified at 17 USC Section 902. It's the only act that I know of that has granted copyright-like protection to an article of utility.

It protects the mask work used to make semiconductor chips. It has a lot of attributes of these petty patent systems. It has a 10-year term. Its remedies are harsh and swift. They include injunction, impoundment and destruction.

The level of registrability is very low. It's little more than originality in the sense that the mask work has to originate with its creator, not that it has to be original in the artistic or scientific sense.

The reason it is supposed to work is because there are broad rights to reproduce the mask work in order to produce a better mask work, and that could be separately registered. So it seems to fit a software model, and because it tracks so many of the features of these petty patent systems, and it's an aspect of U.S. law. It's an act that has been administered by the courts, decided by the Federal Circuit on an extensive

legislative history.

So, that would be my only contribution is to say that if you are thinking about software-like protection and giving people an election, you could extend copyright protection, but not make a full patent scope protection for it. I would be interested to hear what Mark has to say, though.

MR. JANIS: I looked at that when I was studying second tier systems, and my only comment there, and my recollection as to that research is that I couldn't find very much. There was one Federal Circuit decision on the SCPA. I don't get a sense that that act was very successful. If it was, it's hard to tell very much about it. It would be good to see empirical studies on that legislation, but at least, as far as the efficacy of these enforcement provisions you mentioned, I have not seen any reported decisions that would give me any indication as to whether that worked.

MR. BURCHFIEL: I never heard of a case.

MR. JANIS: There's only one Federal Circuit case, I believe. I think it's administered by the copyright office. I think there are very few filed, if I'm not mistaken.

MR. BARNETT: That would have been my next question. Is it being used at all or just not

enforced?

MR. STOLL: Almost not at all from what I understand.

MR. JANIS: I don't believe it is, either.

MR. BURCHFIEL: But it could be predictive of how much confidence the industrialist community replaced in paying taxes.

UNIDENTIFIED SPEAKER: That's a good point, Ken.

MS. DESANTIS: Is there any sense of what the reasons are as to why it is not being used?

MR. STOLL: I don't know very much about it. No one I know has ever asked anything about it.

MR. JANIS: I tried to get a sense of that. To put it into a general context, you would have to ask a E.E. or a specialist to be sure. I got the sense that maybe by the time that system was implemented, the real need for it had passed by.

I sort of got the sense that people at some point really thought they were going to need copyright production for these mask works, and by the time they got it, they really didn't need it anymore. People in the audience are nodding heads, so I'm feeling reassured by that.

MR. KIRK: The filings have dropped to 50

percent and are going down.

MS. DESANTI: Thank you, Michael Kirk.

MR. BARNETT: With that in mind, why don't we shift gears again. I think in some sense it is unavoidable that when we are comparing different systems or the U.S. to other systems in the world, that the question of first-to-file versus first-to-invent can come up.

Now that's said that this is recognizing the passion that some people bring to this discussion, so we are going to try to have our cake and eat it, too, I think. I think really the thought that comes to mind is what impact first-to-invent could have on predictability of patents in the U.S. I would just open this up to the floor, in this sense. I'll open this up to the panel, for that matter. Any comments in particular? Steve?

MR. MAEBIUS: One problem is that with the first-to-invent system that we have, there is a certain amount of unpredictability. Patents that remain stuck in interference for a long time, and people may not know what scope they have, and they come out later and cause problems, and they weren't expected.

The reality is that most companies have to file early, because everywhere else in the world has

first-to-file system. So, it may just be a question of when we trade that off for something else.

MR. BARNETT: Jay, then Bob.

MR. THOMAS: I just find it incredibly difficult to explain to anyone outside the US patent system why we still have a first-to-invent system. It's very difficult to try to explain the reason. I think a lot of it is political in nature.

I would say if we have a first-to-invent system, one of the uncertainties is an unknown and often unknowable date of invention attached to each patent. I would just throw open the observation that, why aren't we attaching dates of invention to every patent? That's what makes our system unique.

But our patent instruments look like everyone else's, they have the date of filing, and not the date of invention. Simply require the inventors to give the first date they believe to be their plausible dates of conception and reduction to practice, and you could actually know when the patent issues what the 102(a) relevant dates are, and you would not have to sue someone to find out about it or be sued. Again, I think, perhaps, there are some that disagree. I just can't imagine why we can't get to first inventor to file. Thank you.

MR. BARNETT: Bob.

MR. STOLL: I think Jay actually said it, it's political in nature. There has been significant attempts for decades to move in that direction. I think the last country that had a first-to-invent system was the Philippines, and I think their's went to first-to-file about four or five years ago.

My understanding is that we have a very strong group of particularly independent inventors who are very concerned that large corporations will somehow get an advantage running to the door of the Patent and Trademark Office, and they will be stuck -- they, the independent inventors -- without an invention.

That being said, we are in the midst of a very significant undertaking at WIPO to talk about moving in the direction of best practices in the sense of a treaty dealing with several issues; in re Hilmer, grace period issues, claim drafting, scope of claim.

I am quite sure that some small country or large country or every country will be looking to put first-to-file on the floor to discuss with respect to getting the United States to move in that direction.

That all being said, I think that what we are looking at is best practices. Is it the best practice to go to first-to-file? Looking at what

is going on now, we find that significantly less than 1 percent of all applications, significantly less, are affected by the issue dealing with first-to-invent and first-to-file.

I also think there was a misunderstanding in the independent inventor community. They were concerned that the first to file would be taking it or ripping it off from someone else, not recognizing that there would still have been the requirement upon the inventor that they are the first to invent, that they are, in fact, the inventor. I think maybe the explanation of that was not done in the manner it should have been done.

I think there should be more discussion that that first inventor -- the first filer must still be the inventor of the subject matter. I do think there will be significantly more discussion on it and look forward to discussing it.

MR. BARNETT: Ken, and then Rick.

MR. BURCHFIEL: I'm a devoted believer in the first-to-invent system for a number of reasons. You are right, we are not going to resolve the moral issue here today. I only point out one thing, and this is important to my clients. I represent huge corporations in interferences, they don't like them. They would

really much likely be rid of them, they're just a nuisance.

I also represent companies that have one invention, and it's a medical product, or it's a compound, or it's a biotechnology invention. Their entire ability to get venture capital to make that an invention or pioneering invention lies on the first-to-invent system.

They don't have the resources of General Motors. They don't have people to crank out applications. They might not even realize that there is a patent until after they have tested it and figured out whether it works.

So, it might be less than one percent, but I don't believe that it is conceptually correct to look at it as a statistical question. It's a question of saying overall in the economy, what companies benefit from it, and what companies don't, and striking a balance there.

In terms of progress in our laws, I think we are rowing on both sides of the canoe here, because the prior use defense in method patents specifically requires an actual reduction to practice more than a year before the filing date, and that is the fundamental interference concept. So, I think that if

we get rid of interferences, we would find interference concepts everywhere in U.S. patent law, instead of just in the interference context.

MR. BARNETT: I might ask for follow-up, and part of it is because I'm trying to get a grasp on it, but the misunderstanding that Robert was talking about regarding that the first to file had to be the first to invent, why wouldn't that solve the situation?

MR. BURCHFIEL: It would be primarily a defense. It wouldn't establish a right to a patent against someone who was first to file. That's what an interference does, it enables an inventor to establish a date of invention that's prior to the date that someone else filed a patent application. That is its sole justification and sole reason for it.

So, I don't know, people who do medical products and biotechnologies, I think tend to see it in a far different context than the electronics industry or a major industry in other fields.

MR. BARNETT: Rick, you have a comment?

MR. NYDEGGER: First of all, the AIPLA has for a long time been a supporter of first-to-file, and I echo what others have already said in that respect in terms of many reasons for advisability and why it is an important thing to support.

I would simply offer the observation that, in connection with some of the major arguments against first-to-file, which are raised by those who do oppose it, would seem to me to be answered in large measure by the now existing procedure for filing provisional applications. That is not an expensive process, and it would seem to me to create a pretty much level playing field for both small and large entities alike.

While I acknowledge that it's not a perfect solution in all respects, it seems to me to go a long, long ways towards answering some of those fundamental concerns that have historically been raised by those who opposed first-to-file.

I would also say that I think that if we don't start seriously trying to change our patent law so that we become a first-to-file jurisdiction, we may ultimately be shooting ourselves in the foot with respect to our patent system.

I say that in the context of just a few weeks ago an AIPLA delegation met with the General Director's Office at WIPO, and we were asked this very difficult question, why are we not a first-to-file jurisdiction? What are we going to do about it?

The fact is that increasingly there's a need for greater levels of full faith and credit and the

ability of patent office jurisdictions around the world EPO, JPO, USPTO, to be able to rely upon the things that they do in terms of one jurisdiction versus another.

To the extent that we're ever going to do that, which may ultimately be, frankly, critical in order to solve some of the growing backlog crisis, not just here in the US, but around the world, that is going to require greater levels of harmonization. It seems to me that that itself is going to dictate in a very, very strong way the need to move to a first-to-file scheme.

MR. BARNETT: I'm curious, you brought up the notion of provisional applications. Just for the record, could you break that down for us with just what's involved in that?

MR. NYDEGGER: You can file a provisional application based on virtually any kind of technical disclosure. I've taken technical disclosures that were based on documentation that was prepared for a trade show and filed it in order to walk in and protect the filing date for that.

Again, while I say that's not without some risks down the road, because ultimately within 12 months you have to convert that into a regular utility application. But, if we are talking about having

sufficient resources to protect one's filing date, if there is any doubt, it seems to me, that you may have a significant invention that you want to protect, you spend a few hundred bucks to do it. You file a provisional application, and then you make the decision down the road whether to take that into a utility case or not. It's not an inordinately expensive procedure by any means.

MR. BARNETT: Mark, did you have a comment?

MR. JANIS: I want to chime in with the comment about the danger of labels in this debate. First-to-file is often portrayed by opponents as first pirate to file, but as Bob Stoll points out, that's not what first-to-file means. First-to-invent in the United States is not really first-to-invent. We have statutory bar provisions. Any starting patent law student quickly figures out that the so-called first-to-invent system in the U.S. is not quite a pure first-to-invent system.

So, I think a lot of times the gulf between these two systems looks very large when, in fact, it is not quite as large conceptually, at least, as it may appear. Politically, yes, but conceptually, no.

MR. BARNETT: Ken, go ahead.

MR. BURCHFIEL: With respect to the

first-to-file system and first-to-invent system, the only real area of significant concern I know is biotechnology. Probably 80 percent of the pending interferences are biotechnology interferences, something like that. It's a huge number.

MR. STOLL: It's not that high. It's high.

MR. BURCHFIEL: It's very high. It's astonishing the extent to which the final judgment in those cases can come down to a matter of two days, or a week, or 10 days. The Constitution, Article One, Section 8 only provides that a patent can be granted to the inventor, first inventor, and you are going to wind up with validity problems anyhow.

So, it would be a good idea to talk to biotechnology people who are investing a lot of money on research and development and who are deeply involved in interferences. They'll give you a much clearer idea of what it's worth and not worth to them. They are a good source to, at least, ask about it, since they do it more than anyone else.

MR. NYDEGGER: Two comments about that. First of all, I think that most of these interferences in fact don't typically involve small individual inventors. They are usually fought out between major corporations, I believe. Secondly -- I'm not quite

sure about this, this is the point maybe you can clarify, Bob -- I also believe somewhere in the back of my mind it sticks in my memory that a very high percentage of these interferences is, in fact, won by the party that's first to file in any event.

MR. STOLL: I agree. And I think that senior parties win up to, I think, it's 80 percent of the actual interferences that are filed.

I want to add in to the Constitutional issue, too. I don't think that's a very strong argument, because it depends on how we define inventor. If we define the inventor as the individual who actually invents and is the first to provide the information to the Patent and Trademark Office, that is, in fact, the inventor. I don't think we run into a Constitutional question, although I have heard that argument before.

And remember, we are actually providing a limited term of exclusivity directed to exclude others to make use, et cetera, in order to get the information. So, there's a bargain going on here, and I think going to the Office is a very important part of that bargain.

MR. BARNETT: Steve?

MR. MAEBIUS: It's also extremely difficult to have evidence that satisfies the requirements that have

evolved for proving the date of invention. And some of the biotech interferences we have seen that involve universities, for example, they had a very difficult time pulling together evidence that would win. The ones that I'm aware of, they usually came out on the losing side.

MS. MICHEL: Is that because corporations generally have better programs in place for explaining to their scientists the reason they need to write things in notebooks, as opposed to graduates who write things on paper?

MR. STOLL: Let me correct that. We have done a recent study and found that just as many independent or small inventors win as large corporations. The rates are the same.

MS. MICHEL: So, the issue then is who is the senior party more than...

MR. STOLL: That's more of the likelihood of the outcome than anything else. Because they are the ones that got into the door first, they are likely to be the prevailers.

MR. BARNETT: We are getting to run a little close in time. If anyone has a closing statement or any points they would like to make, right now would be very appropriate, I think. Jay?

MR. THOMAS: I would commend this committee for looking at international comparative law, because that's something that the U.S. patent system has not traditionally relied upon. And there certainly is a sense of xenophobia from our trading partners, so the fact we are willing to assemble such a group and discuss it is a good sign and bodes well for the future of this issue. Thank you.

MR. BARNETT: Rick?

MR. NYDEGGER: I wasn't aware of this, but apparently former Commissioner Gerald Mossinghoff is in the process of preparing a paper that's getting ready to run for publication that would have statistics on first-to-file versus first-to-invent over the last 20 years, which I'm told is going to be published in the Journal of the Patent and Trademark Office Society. That may be of interest for people to take a look at, because there would be probably some valuable empirical data coming out of that.

MR. BARNETT: Thank you, Rick. With that, I think we will go ahead and conclude. Thank you to all the participants.

(Whereupon, hearing concluded at 4:20 p.m.)

C E R T I F I C A T I O N O F R E P O R T E R

DOCKET NO: P022101
CASE TITLE: COMPETITION AND INTELLECTUAL PROPERTY LAW AND POLICY IN THE KNOWLEDGE-BASED ECONOMY
TRIAL DATE: April 11, 2002

I HEREBY CERTIFY that the transcript contained herein is a full and accurate transcript of the notes taken by me at the hearing on the above cause before the FEDERAL TRADE COMMISSION to the best of my knowledge and belief.

DATED: APRIL 18, 2002

CONNIE A.S. WILSON

C E R T I F I C A T I O N O F P R O O F R E A D E R

I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation and format.

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