

Lecture: Innovation, Incentives,  
Competition, and Patent  
Law Reform: Should  
Congress Fix the Patent  
Office and Leave Litigation  
Management to the Courts?\*

Welcome: Dean Michael Treanor  
Introduction: Hugh C. Hansen  
Lecturer: Chief Judge Paul Michel

DEAN TREANOR: I'm Bill Treanor. I'm the Dean of Fordham Law School. It's my pleasure and privilege to welcome you to tonight's lecture by Chief Judge Michel of the Federal Circuit. It's a public lecture, sponsored by Cooper & Dunham and John White. Cooper & Dunham is, as you know, the patent law firm which has been such a great sponsor of our IP program and is the sole sponsor of our Visiting Distinguished Fellowship Program, which has brought the Chief Judge to Fordham here this year.

Professor Hugh Hansen, known to all of you, an iconic figure in the world of intellectual property, will have the privilege of

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\* Chief Judge Michel's lecture was given in November 2009 at Fordham University School of Law as part of the Fordham Intellectual Property Institute's Visiting Distinguished Fellowship Program. All footnotes are attributed to the *Fordham Intellectual Property, Media & Entertainment Law Journal*.

introducing the Chief Judge in a moment. I have the privilege of delivering a few preliminary remarks.

First of all, I would just like to talk about the Fordham Intellectual Property Law and Policy Annual Conference, which is now in its eighteenth year and has literally put Fordham on the map in intellectual property. Really, it's a tribute to Professor Hansen. He really envisioned the Fordham intellectual property program at a time when law schools really didn't have intellectual property programs.

We started with the conference, and now it has grown into the Fordham Intellectual Property Law Institute, which plays a leading role in the field of intellectual property law. In addition to planning and conducting the IP conference and an annual roundtable seminar in London, the IP Law Institute has IP fellows. We have three this semester. It will have a Microsoft Research and Teaching Fellow beginning this January, a two-year appointment for a junior academic or lawyer from abroad who will teach at Fordham and support their IP scholarship. We have a Distinguished Visiting Judicial Fellow, which this year is the Honorable Paul Michel, Chief Judge of the Court of Appeals for the Federal Circuit.

While the Judicial Fellow is here—and this week we have had the Chief Judge here; I have to say, what a great honor that has been for us—the Fellow does a luncheon address to the faculty, teaches a master class, delivers remarks, and has a question-and-answer session with students at a student reception, has lunches or dinners with faculty and students, and delivers this public lecture, which again is made possible by the sponsorship of Cooper & Dunham and John White.

Again, Professor Hansen will introduce the Chief Judge in a moment. He is one of the giants in the field of patent law. He has been on the bench of the Federal Circuit since 1988 and has been Chief Judge since 2004. So he has been at the helm at, really, a critical period and a fascinating time. He has done the most extraordinary job and is just a giant in the field. I'm such a huge fan of his. To have somebody of his stature at Fordham Law really brings such great honor to us, and it's just such a treat for our

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students and our faculty and our alumni and everybody who benefits from this great program.

Chief Judge, I just want you to know how grateful we are. Without any further ado, I turn matters over to the iconic Professor Hugh Hansen.

PROF. HANSEN: Thank you for your kind words. Before I introduce the Chief Judge, let me just say something about William Treanor.

Fordham has been lucky to have a series of outstanding deans, and certainly Bill has been one of our finest ever. The first year for any law school dean is difficult. If there had been such an award, he would have been voted “Rookie of the Year.” He hit the ground running and has been fantastic on so many levels, and especially with regard to our intellectual property program. All of us in the program thank Dean Treanor for his support.

Our IP program has many facets. Joel Reidenberg has his Center on Law and Information Policy which focuses on IT and Privacy law, and also IP law. We have one of the best and high-ranking IP journals in the country, the *Fordham Intellectual Property, Media and Entertainment Law Journal*. We have a brand new IP Clinic, with Ron Lazebnik as its director. We have an excellent core group of full-time IP professors, and also an outstanding group of adjunct professors who teach many of our courses. And then we have our IP Institute. I invite you to visit our website to see some of the things that we do, [fordhamipinstitute.com](http://fordhamipinstitute.com). One of the most rewarding is to host our Distinguished Visiting Judicial/Professorial Fellow each year.

I’m happy tonight to introduce our honored guest and this year’s Distinguished Visiting Judicial Fellow. It is great that someone with the responsibilities of Chief Judge Michel has agreed to spend most of the week here at the School. And the highlight of that week is to deliver this lecture.

Chief Judge Michel has an interesting background. He started off at Williams College and the University of Virginia Law School, which is certainly a good start. His first legal job was with Arlen Specter as a prosecutor in Philadelphia back in the day, investigating police and public corruption.

Then he became an assistant Watergate prosecutor. I wonder how many people here tonight were alive at the time of Watergate. It was a time of tremendous political upheaval. Paul had great assignments. He investigated Nixon's slush fund, Howard Hughes—I didn't even know Howard Hughes was involved in Watergate—Bebe Rebozo, who was pretty well-known then, Nixon's secretary, Rose Mary Woods, and the eighteen-minute gap in the tapes recorded in the Oval Office.

Actually, Paul, a lecture on what you did back then would be pretty interesting.

He then moved on to the assistant counsel for the Senate Select Committee on Intelligence, the Church Committee, investigating abuses of civil liberties by U.S. law enforcement agencies targeting American citizens, and I guess American citizens abroad. Paul then went on to be deputy chief of the Justice Department's new Public Integrity Section, which directed the "Koreagate" investigation.

An interesting background, Paul, but it kind of looks like you couldn't hold down a job for very long.

Then he went on to Senator Arlen Specter's staff as counsel and chief of staff in the Senate. Up until this time, Paul became a judge on the Court of Appeals for the Federal Circuit in 1988 when he had no IP experience at all. It is interesting to contrast that with where he is today. He has been on *Managing Intellectual Property's* list of the fifty most important people in IP in the world<sup>1</sup> every year since 2003.<sup>2</sup>

Chief Judge Michel has received a gazillion awards, too many to mention. He taught at a number of law schools and has given lectures at a slew of universities. Over the course of his time in the Court of Appeals for the Federal Circuit, Paul has authored over 800 opinions. That's a lot of opinions. That averages close to forty a year, which, on a circuit level, is a tremendous amount. Of

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<sup>1</sup> *Meet the People Shaping the Future of IP*, MANAGING INTELL. PROP. (July 1, 2009), <http://www.managingipjobs.com/Article/2249869/Meet-the-people-shaping-the-future-of-IP.html>.

<sup>2</sup> *Hon. Paul R. Michel, Chief Circuit Judge—Biography*, U.S. CT. APPEALS FOR FED. CIR., <http://www.cafc.uscourts.gov/judgbios.html> (last visited Apr. 7, 2010).

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course, many of these were very important decisions. He has been a very influential judge.

Paul has sat by designation as a judge on the Second, Third, and Ninth Circuit. Of course, Paul would agree with me that of those the Second is the best.

He has been involved in interesting judicial interplays with the Supreme Court. The most recent aspect of this occurred with respect to the *Bilski* opinion,<sup>3</sup> in which the Supreme Court just heard oral arguments a little while ago.<sup>4</sup> Chief Judge Michel wrote the majority en banc Federal Circuit opinion in that case. I'm sure if there are questions—and we are going to have quite a bit of a question-and-answer period—Paul would be willing to address some of the issues in the *Bilski* situation.

In any case, without further ado, I would like to introduce Chief Judge Paul Michel.

CHIEF JUDGE MICHEL: Thank you, Hugh, for the nice welcome, and Dean Treanor, for your kind words.

I can tell you exactly why I am here in a single word: Respect, respect for Fordham Law School, where I now make my fourth visit, for its students, its faculty, and its future orientation, and respect for Hugh Hansen. Professor Hansen recruited me to be a part of his famous Easter Week international patent symposium some years ago, and I had such a great time, I couldn't wait to be invited back. Ultimately I was and made a second appearance on this very little stage here, I think it was eighteen months ago, and once again was impressed with the quality of the conference, including the interplay with the audience. I hope we can match that here tonight.

The Dean was too kind or too grandiose in saying that I was going to deliver a lecture. What I propose to do is a little bit different. I propose to make some remarks to try to stimulate a dialogue with all of you. I'm going to try to manage the time so that we have at least a half an hour to deal with questions. I'm

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<sup>3</sup> *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (en banc), *aff'd sub nom.* *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

<sup>4</sup> Transcript of Oral Argument, *Bilski*, 130 S. Ct. 3218 (No. 08-964).

very interested in what's on your mind, whether you are academics or practitioners or have some other role in the overall drama of intellectual property in the United States, and particularly the patent law.

So here we go.

Number one, my thesis is that the patent system is the most important single engine for economic progress now in the United States. We no longer make a lot of the things we used to make and export that served as the foundation for the great and growing prosperity in this country. What do we make? We basically make innovations of various kinds, not all patented, but many patented or eligible to be patented. As a result, patents are critical to the level of investment in research and development.<sup>5</sup> Of course, not all research and development comes from the leverage that patents provide, but a very large portion clearly does.

For example, startup companies that provide so much in the way of innovation, scientific progress, and job creation almost always depend on venture capital.<sup>6</sup> After all, they don't really

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<sup>5</sup> See, e.g., Zvi Griliches, *Market Value, R&D, and Patents*, in 11 NATIONAL BUREAU OF ECONOMIC RESEARCH 249, 250 (1984) (finding significant and positive effects of R&D and the number of patents applied for on the value of the firm); Igor Prodan, *Influence of Research and Development Expenditures on Number of Patent Applications: Selected Case Studies*, in *OECD Countries and Central Europe, 1981–2001*, in 5–4 APPLIED ECONOMETRICS AND INTERNATIONAL DEVELOPMENT 5, 19 (2005) (finding “a positive correlation between R&D and patent applications”); F.M. Scherer, *Research and Development Expenditures and Patenting*, 10 APLA Q.J. 60, 70 (1982) (“The probability that a business unit will receive any patents in a ten-month period is higher, the more R&D that unit does. The number of patents received varies nearly linearly with the amount of company-financed R&D performed.”). See generally Robert M. Hunt, *Economics and the Design of Patent Systems*, 13 MICH. TELECOMM. & TECH. L. REV. 457 (2007) (discussing the relationship between patents and R&D).

<sup>6</sup> See, e.g., Jesse M. Fried & Mira Ganor, *Agency Costs of Venture Capitalist Control in Startups*, 81 N.Y.U. L. REV. 967, 968–69 (2006) (“Venture capitalists . . . play a significant role in the financing of high-risk, technology-based startup companies, investing billions of dollars annually in these businesses . . . [and] provid[ing] valuable management and strategic advice to these startups, many of which are founded by entrepreneurs with little business experience. As a result, venture capital is an important contributor to economic growth in the United States and elsewhere.”); Ronald J. Gilson, *Engineering a Venture Capital Market: Lessons from the American Experience*, 55 STAN. L. REV. 1067, 1068 (2003) (“The venture capital market and firms . . . are among the crown jewels of the American economy . . . [and] have been a major force in

have profits yet. They often don't even have a product in their early stages. So they are dependent on venture capital, and, understandably, venture capitalists are not eager to invest money if there is no assurance they will get a return on the investment. That's what the patent essentially provides.

A great deal of innovation also comes from universities, from research institutes, from individual inventors, as well as the startups that I mentioned. Then, of course, the rest comes from the large, well-known corporations in this powerful economy and country.

The question is, if we are so dependent on the incentive provided by patents, are we maintaining, are we strengthening, are we modernizing our patent system? If you compare us with some of our competitors, I think we could say very confidently that China is assiduously strengthening its patent system in every way, by leaps and bounds, every year.<sup>7</sup> Some believe that here in the United States, instead of strengthening, much less just maintaining the patent system, we actually are in the process of weakening the patent system in various ways, particularly in the form of the pending legislation now being considered by the Senate, the so-called patent reform bill, otherwise known as S. 515.<sup>8</sup>

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commercializing cutting-edge science . . . . The venture capital market . . . provides a unique link between finance and innovation, providing start-up and early stage firms . . . high-return activities.”).

<sup>7</sup> See *Hot Property: Can China's IP System Cope with the Rise in Patent Applications?*, KNOWLEDGE@WHARTON.COM (Jan. 9, 2009), <http://www.knowledgetharton.com.cn/index.cfm?fa=viewArticle&articleID=1969&languageid=1>

(“Applications for new patents in China have increased exponentially and will surpass Japan, the current leader in new patents, by 2012 . . . . China, from humble beginnings, is experiencing the most rapid growth . . . .” (internal quotation marks omitted)); Joff Wild, *Seeing the Forrest: Considering Worldwide Patent Trends*, PATENTLY-O (Aug. 7, 2009, 10:10 AM), <http://www.patentlyo.com/patent/2009/08/seeing-the-forrest-considering-worldwide-patent-trends.html> (“[T]he one major economy which currently seems to be bucking the trend is China. . . . PCT applications with a Chinese origin are up 19% in 2009. . . . For the first time ever in China, invention patent grants made to local applicants now exceed those made to foreign entities.”).

<sup>8</sup> Patent Reform Act of 2009, S. 515, 111th Cong. (2009); see Press Release, IP Advocate, IP Advocate Joins Small Business Coalition on Patent Legislation to Protect and Promote Rights of University Scientists in Federal Patent Debate (Dec. 15, 2009), [http://www.ipadvocate.org/press/pdfs/Coalition\\_NR.pdf](http://www.ipadvocate.org/press/pdfs/Coalition_NR.pdf) [hereinafter IP Advocate Joins Small Business Coalition] (“The proposed reforms greatly weaken our U.S. patent

Why do some people say it would weaken the effectiveness of the patent system? For one thing, it may very well increase costs and delays.<sup>9</sup> Already justly the source of much complaint, they both are likely to be made worse by some provisions of the bill as it currently stands, particularly, for example, the provision dealing with damages.<sup>10</sup>

Secondly, the bill would make it nearly impossible, in my practical judgment, to establish willful infringement, and therefore the potential for enhanced damages, which, as you know, can be multiplied, in appropriate cases, up to three times,<sup>11</sup> much as in the case of antitrust law.

Third, the bill would allow interlocutory appeals of bare claim construction rulings, even when they are not dispositive on the issue of liability.<sup>12</sup> Where they are dispositive, almost always summary judgment is granted, and the parties have an appeal as of right from a grant of summary judgment. So we already get very large numbers of interlocutory appeals, in the sense that there hasn't yet been a trial; there has mainly been a claim construction, and that's about all. But the bill would add to the existing interlocutory appeals, which always are dispositive by definition,

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system, which has historically rewarded innovators for creating novel industries and businesses that generate large numbers of new jobs.”). In early 2010, the Senate “revived interest in the patent reform act with a substitute bill entitled the ‘Patent Reform Act of 2010.’” *Patent Reform Act of 2010: An Overview*, PATENTLY-O (Mar. 8, 2010, 2:50 PM), <http://www.patentlyo.com/patent/2010/03/patent-reform-act-of-2010-an-overview.html>.

<sup>9</sup> IP Advocate Joins Small Business Coalition, *supra* note 8 (“[T]he provisions for expanded ‘Post Grant Opposition’ . . . will allow anyone to challenge any patent for any reason within the first 12 months of its issuance. . . . [T]he resulting costs and delays will cripple innovation and thwart start-up investments in companies that rely on patents for their survival.”).

<sup>10</sup> S. 515, § 4.

<sup>11</sup> *Id.* § 4(e)(1) (“A court that has determined that an infringer has willfully infringed a patent or patents may increase damages up to 3 times the amount of the damages found or assessed under subsection (a) . . .”).

<sup>12</sup> WENDY H. SCHACHT & JOHN R. THOMAS, CONG. RESEARCH SERV., PATENT REFORM IN THE 111<sup>TH</sup> CONGRESS: INNOVATION ISSUES 30–31 (2009), *available at* <http://www.policyarchive.org/handle/10207/bitstreams/19108.pdf> (“Ordinarily, litigants may appeal only ‘final decisions’ from the district courts. Although federal law currently allows for . . . [interlocutory appeal] at trial . . . [the] Federal Circuit has declined to accept such appeals for routine claim interpretation cases. . . . S. 515 would expressly authorize such interlocutory appeals.”); *see* S. 515, § 8(b).

because of summary judgment, a lot of cases—who knows the number—where it's not dispositive. The practical impact of that would be more cost and more delay than the status quo has.

Some people think that the damages and interlocutory appeals provision should either be greatly changed or stripped out of the bill altogether.<sup>13</sup>

What else could be said about the bill as it translates into cost and delay? It creates a new form of reexamination of patents, at the behest of third parties,<sup>14</sup> and it provides for a year window for a post-grant review after the issuance of patent and gives the Patent Office a year from that filing to resolve the review.<sup>15</sup> There is a big issue about whether the threshold for reexam is high enough. There may be some modifications under way right now. But the current trigger, a substantial new question of patentability, is deemed met by the Patent Office in 95% of the applications.<sup>16</sup> So it's almost no standard at all. Anybody who wants to get a reexam can get it, except for 5% of the time.

I think both of these provisions would also add some delay, and add delay and trouble in the Patent Office that can least afford it of all the institutions that are part of the larger patent system.

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<sup>13</sup> See, e.g., Edward Reines & Nathan Greenblatt, *Interlocutory Appeals of Claim Construction in the Patent Reform Act of 2009*, 2009 PATENTLY-O PAT. L.J. 1, 13 (“[A]s drafted, the interlocutory appeals provision is short-sighted. It unwisely deprives the Federal Circuit of its role in the interlocutory appeal process [and] proposes a false solution to the wrong issue.”); *The Patent Reform Act of 2009—Interlocutory Claim Construction Appeals Create a Whole New Patent Backlog*, PROMOTE PROGRESS BLOG (Mar. 12, 2009), <http://promotetheprogress.com/the-patent-reform-act-of-2009-interlocutory-claim-construction-appeals-create-a-whole-new-patent-backlog/1121>

(“[The provision is] clearly a short-sighted, duct-tape solution that shows a lack of concern for the patent law as a whole. The ‘problem’ of claim construction, and the patent law as a whole, would be better served by legislatively requiring a degree of deference to district court judges during *normal* appellate review of claim construction issues.”).

<sup>14</sup> S. 515, § 5 (“Any third-party requester at any time may file a request for inter partes reexamination by the Office of a patent.”).

<sup>15</sup> *Id.* (“[T]he final determination in a post-grant proceeding [should] issue not later than one year after the date on which the post-grant review proceeding is instituted.”).

<sup>16</sup> See U.S. PATENT & TRADEMARK OFFICE, EX PARTE REEXAMINATION FILING DATA 1 (2009), [http://www.uspto.gov/web/patents/documents/ex\\_parte.pdf](http://www.uspto.gov/web/patents/documents/ex_parte.pdf) (indicating that reexamination has been granted for about 92% of requests since the start of ex parte reexamination in 1981).

I don't think it's an exaggeration to say that the Patent Office is virtually dysfunctional today. The delay to get a final office action in a patent examination runs roughly between two and five years.<sup>17</sup> In some technologies, it's more than that. The delay at the board level on reviewing examiner rejections is over two years and growing.<sup>18</sup> The average experience level of most of the 6000 examiners at the PTO is three and a half years.<sup>19</sup> Now, I don't know about you, but most people in a new, difficult, challenging job take three or four years to really get to be any good at it and ready to tackle tough cases. But that's the average time in the Patent Office. Of course, it's understandable. These young engineers and scientists and people from other similar backgrounds can double or triple their salary by walking out the door and going into private industry.

Beyond the inexperience of the examiners, the supervision by more senior examiners is also very limited. First of all, there aren't very many of them, because they also have usually left—maybe not after three years, but, let's say, after five or six. In fact, the Patent Office can't even house all of its examiners. A large portion of them and board members, too, work at home. How close can the supervision be for a young examiner if she or he is working at home?

The real problem is that the Patent Office doesn't have anywhere near the revenue or the resources it needs to do the job fast and well. I think it's kind of interesting that, for all the

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<sup>17</sup> See Matthew John Duane, *Lending a Hand: The Need for Public Participation in Patent Examination and Beyond*, 7 CHI.-KENT J. INTELL. PROP. 57, 67 n.78 (2008) (“[D]elays between the filing of an application and its examination . . . can be as long as four or five years for certain disciplines.”); see also Troy L. Gwartney, Note, *Harmonizing the Exclusionary Rights of Patents with Compulsory Licensing*, 50 WM. & MARY L. REV. 1395, 1410 (2009) (“[A] typical examination takes three years to complete.”).

<sup>18</sup> See, e.g., Peter Zura, *Employing Successful Strategies for Patent Litigation*, in ASPATORE, RECENT TRENDS IN PATENT INFRINGEMENT LAWSUITS: LEADING LAWYERS ON ANALYZING SIGNIFICANT PATENT INFRINGEMENT CASES AND DEVELOPING SUCCESSFUL LITIGATION STRATEGIES (2010).

<sup>19</sup> See *Patent Examiner Experience Levels*, PATENTLY-O (Feb. 5, 2010, 12:40 PM), <http://www.patentlyo.com/patent/2010/02/patent-examiner-experience-levels.html> (indicating that the vast majority of patent examiners have fewer than three years of experience and very few have greater than ten years of experience).

different provisions that are in the patent reform bill, there's not one dollar of extra money provided for the Patent Office, which seems to me to be the single greatest need of all.

Some years ago, Congress mandated that the Patent Office be self-supporting—that is, that all of its revenue to operate would have to come from fees charged to applicants.<sup>20</sup> Indeed, the fees were raised in the wake of that decision to try to provide more resources.<sup>21</sup> The problem is that the fees are controlled by Congress,<sup>22</sup> and not by the Patent Office, and they have proven to be hugely inadequate.

Not only that, but for six years, Congress diverted part of the fee money and devoted it to pet pork projects designed to help members get reelected.<sup>23</sup> So the Office didn't even get all of the fee money, even when the total would have been inadequate anyway.

In more recent years, Congress has desisted from that practice, which is an improvement. Still, the main problem is that the resources are just inadequate. In fact, for most of the last year and a half there has been a total hiring freeze at the Patent Office. This

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<sup>20</sup> Omnibus Budget Reconciliation Act of 1990, Pub. L. No. 101-508, 104 Stat. 1388 (canceling the use of taxpayer support for Patent Office operations); *see also* Maud S. Beelman, *U.S. Patent Office Bursting with Ideas, Creative Boom Overwhelms Staff, Resources*, HOUSTON CHRON., Oct. 26, 1997, at A2 (“The patent office became self-supporting in 1992 under legislation that required it to raise fees nearly 70 percent to replace taxpayer support of its budget.”).

<sup>21</sup> *See* MARLA PAGE GROSSMAN, INST. FOR POLICY INNOVATION, DIVERSION OF USPTO USER FEES: A TAX ON INNOVATION 2 (2009), [http://www.ipi.org/IPI/IPIPublications.nsf/PublicationLookupFullTextPDF/D1E21F10301948E2862575A90056D672/\\$File/PatentFeeDiversion.pdf?OpenElement](http://www.ipi.org/IPI/IPIPublications.nsf/PublicationLookupFullTextPDF/D1E21F10301948E2862575A90056D672/$File/PatentFeeDiversion.pdf?OpenElement) (noting that the intent behind the Omnibus Budget Reconciliation Act of 1990 was to shift the source of USPTO revenue away from taxpayer dollars and towards user fees).

<sup>22</sup> *See* Dan Goodin, *Budget Sparks Bill to Protect PTO Funds, Diversions from Self-Funded Agency to Hit All-Time High*, S.F. RECORDER, Feb. 14, 1997, at 1 (“While patent application fees are intended to make the PTO self-funding, Congress retains control over how a portion of the money is spent. Congress’ raids on the PTO budget have grown progressively larger over the years, with more than \$142 million siphoned away since 1992.”).

<sup>23</sup> *See, e.g., So Called Patent Reform Cheats U.S. Investors*, INTELLIGENCER, June 27, 2007, at A15 (“The unconscionable delay in processing patent applications resulted when Congress diverted the fees paid by inventors into pork and other pet projects.”).

is the same Patent Office where examiners are leaving in droves for the higher salaries I mentioned before. So the workload is going up, but the workforce is going down and the experience level is going down. They are suffering considerable attrition.

In fact, some of the ways that they used to incentivize examiners to stay are now no longer available. A great many of you may remember that in days of old the Patent Office would send you to law school and the government would pay for it. Meanwhile, you worked during the day as an examiner. That program has been discontinued.

Not only that, but we have had an upsurge in filings over the last decade that have led to a truly awful situation. There are 750,000 applications, the paper versions of which are sitting in a warehouse, unread by any human being, for months and months and months and months. There are another 500,000 applications that are under examination, but of a very slow, halting, sporadic sort. So you have upwards of 1.5 million applications that aren't going anywhere fast, which I think is a scandal. When you consider how fast the pace is in the business world and how fast certain technologies are surging forward, to have a system where it takes half a decade to get a patent issued and where the applications sit in a warehouse for years I think is nothing short of a disgrace.

There are many other detailed things that could be said about the Patent Office, but I hope that in that quick sketch you can see the reason why many people, including me, feel that the Patent Office is in a crisis situation, it's nearly dysfunctional, and it needs to be rescued. The short answer is that the fees need to go up and Congress needs to infuse it with a huge amount of cash, probably on the order of about \$1 billion a year, at least for a brief transitional period, until it can beat down that backlog, get more experienced examiners, improve its whole process. Its computer systems are terrible, which, of course, is another huge handicap.

Let me shift now to the courthouse. If there are big problems in the Patent Office, what about in the courthouse, trial or appellate? I'll concentrate initially on the trial courts.

Everybody would probably agree that they are too slow and too expensive. Typically it takes three to six years to get a final judgment in a district court. It may take somewhere in the range of \$5 million to \$20 million, depending on the complexity of the case.<sup>24</sup> If I'm right in my concern about interlocutory appeals, with appeals currently taking a year, we will have another couple years of delay because of the interlocutory appeal provision. Let's say you are in the district court for four years; you have an interlocutory appeal, five years; then you have some more work at the district court, six years; then you have a final appeal—maybe a final appeal; another appeal—to the Federal Circuit. Now we're at the seven-year mark—way too slow. In today's world, just way too slow.

So the courthouse has problems, too.

What the courts and the PTO both need to do is to improve their speed, their accuracy, and the infrastructure that helps them operate, such as the PTO computer system that I mentioned. What happens if we don't make these kinds of improvements or if we get counterproductive legislation? The value of all the extant million patents will go down, so corporate wealth will suffer. Research and development budgets will almost certainly go down. Therefore, innovation will go down. Therefore, the infrastructure on which our future prosperity as a country heavily rests will be significantly threatened, in my judgment.

Maybe it's a little bit alarmist, but I think it's fair to say there is a crisis in the Patent Office and there is a near-crisis in the courthouse.

What's being done? I mentioned that the patent reform bill doesn't provide an additional dollar to the Patent Office,<sup>25</sup> even though dollars are what it needs more than anything else. What's the state of play in the courts? The courts are short 100 judges. There are 100 vacancies today out of a judicial corps of about 900.

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<sup>24</sup> See Catherine Rajwani, *Controlling Costs in Patent Litigation*, HARBOR L. GROUP, Nov. 2008, at 1, available at <http://www.harborlaw.com/newsletters/november.pdf#zoom=100> (estimating a combined cost of about \$10 million for both sides in an average patent case when more than \$25 million is at risk).

<sup>25</sup> See *supra* notes 20–23 and accompanying text.

So we are 10% under-strength because of delays in the White House and the Senate. Not only in the current administration, but in all recent administrations we have had this level of understaffing of the courts—about 100 judges.

Secondly, we have so many long-delayed cases in the federal court system that year after year after year we have pleaded with Congress to create additional judgeships. The current number is also about 100. So there are 100 vacancies that aren't being filled quickly and there are 100 judgeships being requested year after year, but not created by Congress.

One measure of what a problem this is, is that today in America, there are 18,000—18,000—civil cases that have been sitting on the docket for more than three years without a trial. I would say that's a very unfortunate state of affairs, to put it very mildly.

What about patent reform? I don't want you to think that I'm against reform. I'm for improvement in the Patent Office, in the courthouse, and in the substantive law as well. I think that there are many things in the current Senate Bill 515 that probably are very productive and appropriate. It's also my view that there are some things that are very counterproductive and dangerous. In my view, the bill isn't ready for what you might call primetime. Yet it has been cleared by the Senate Judiciary Committee and it's hovering around the floor awaiting final Senate action. What about the House? The House, which acted first last time, decided to defer to the Senate this time. The scuttlebutt is that the House will accept whatever the Senate passes—just pass the same bill. So all the action seems to be in the Senate.

What's the problem with the bill in the Senate? Part of the problem is the origin of it. In 2003, the Federal Trade Commission (the "FTC") issued a big report.<sup>26</sup> Many of you are familiar with it, at least in general terms. The next year, the National Academy of Sciences (the "NAS") issued a similar report, both calling for rather fundamental change—you might even call it radical

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<sup>26</sup> FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

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reform.<sup>27</sup> A year later, 2005, the American Intellectual Property Law Association (the “AIPLA”) issued an extended scholarly commentary on the two earlier reports by the aforesaid agencies.<sup>28</sup> Unfortunately, Congress paid no attention at all to the AIPLA report but, in its committee report, quotes extensively from the FTC and NAS reports.<sup>29</sup>

The driving force behind the more controversial provisions in the Senate bill is fifteen significant companies in this country.<sup>30</sup> Probably they are clients of your firms, so I may be treading on dangerous ground here. To a significant extent, the push in Congress for reform of the patent law has come from those fifteen firms, about ten in California and about five on Wall Street.<sup>31</sup> The California firms include Intel, Hewlett-Packard, Cisco, Sun, Micron, and a few others, and the Wall Street firms include Goldman Sachs, J.P. Morgan, Citibank, and a couple others.<sup>32</sup>

What’s wrong with that? Nothing is wrong with that. But consider the context. In this country today, there are 30,000 companies—30,000—that employ at least 100 people. If we go below 100 employees, obviously the number goes way up. I don’t even know the number. But let’s just stick with the 30,000 companies that have at least that many employees.

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<sup>27</sup> COMM. ON INTELLECTUAL PROP. RIGHTS IN THE KNOWLEDGE-BASED ECON. ET AL., *A PATENT SYSTEM FOR THE 21<sup>ST</sup> CENTURY* (Stephen A. Merrill, Richard C. Levin & Mark B. Myers eds., 2004)

<sup>28</sup> AM. INTELLECTUAL PROP. LAW ASS’N, *AIPLA RESPONSE TO THE ANTITRUST MODERNIZATION COMMISSION QUESTIONS FOR PUBLIC COMMENT* (2005), *available at* [http://www.aipla.org/Content/ContentGroups/Issues\\_and\\_Advocacy/Comments2/DOJ/AntitrustModernizationResponse.pdf](http://www.aipla.org/Content/ContentGroups/Issues_and_Advocacy/Comments2/DOJ/AntitrustModernizationResponse.pdf).

<sup>29</sup> *See* S. REP. NO. 111-18 (2009), *available at* <http://judiciary.senate.gov/resources/reports/111reports.cfm> (follow “The Patent Reform Act of 2009” hyperlink).

<sup>30</sup> *See* Narri Subrati, *Inventors’ Group Supporters Call Intel Founder Andy Grove’s Comments About Patents “Absurd and Irresponsible,”* MARKETWIRE (May 19, 2009), <http://www.marketwire.com/press-release/Inventors-Group-Supporters-Call-Intel-Founder-Andy-Groves-Comments-About-Patents-Absurd-991871.htm>.

<sup>31</sup> Several trade organizations representing companies across multiple industries as well as independent corporations have lobbied for patent reform, specifically, passage of the Patent Reform Act. One notable example is the Coalition for Patent Fairness (the “Coalition”) (Intel, Cisco Systems, Sun Microsystems, and Citigroup, among others, are members). *See Patent Reform Supporters*, COALITION FOR PAT. FAIRNESS, <http://www.patentfairness.org/learn/who/supporters> (last visited May 13, 2010).

<sup>32</sup> *See id.*

The question is, what about all the other companies? Have they been heard from equally with the fifteen companies that were so concerned to have some very major changes? The answer is no, because of the way our political process works. The fifteen firms that wanted radical change have hired big-time lobbyists, the people you read about all the time.<sup>33</sup> They have made massive campaign contributions.<sup>34</sup> They have conducted endless negotiations, mostly behind closed doors—not always, but mostly.<sup>35</sup> They have had multiple “fly-ins.” That’s a Washington expression. A “fly-in” is when the CEO of your company comes in and buttonholes twenty senators and bends their ears for the benefit of the company—all of which is, of course, proper. It’s probably constitutionally protected as a form of petitioning the government for redress of grievances. It’s entirely proper for them to do it. But it introduces distortion, if fifteen companies are hyperactive and the other 29,000 are mostly silent. And it looks to me like that is more or less what has happened until lately.

Some other distortions have come about. Again, I want to be careful not to be misunderstood. Quite a number of economists have chimed in with their views about the patent system and what needs to be changed.<sup>36</sup> For example, Professors Lerner and Jaffe came out with a very dramatic book about how broken the patent

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<sup>33</sup> In 2009, the Coalition reported spending \$2.5 million on patent reform lobbying efforts, hiring such high profile firms as Patton Boggs LLP and Mayer Brown LLP. *Lobbying—Coalition for Patent Fairness*, OPENSECRETS.ORG, <http://www.opensecrets.org/lobby/clientsum.php?lname=Coalition+for+Patent+Fairness&year=2009> (last visited May 13, 2010); see also Andrew Noyes, *Lobbying Battle over Patent Overhaul Already Under Way*, CONGRESSDAILY (Dec. 1, 2008), [http://www.nationaljournal.com/congress-daily/cdp\\_20081201\\_9297.php](http://www.nationaljournal.com/congress-daily/cdp_20081201_9297.php).

<sup>34</sup> See Suzanne Struglinski, *Hatch, Cannon Push Patent Bill*, DESERET NEWS, July 4, 2007, <http://www.deseretnews.com/article/680196208/Hatch-Cannon-push-patent-bill.html> (noting that Intel, among other large advocates for patent reform, has made contributions to the political campaigns of Sen. Orrin Hatch and Rep. Chris Cannon who were part of the congressional committee working on the 2007 version of the bill).

<sup>35</sup> See Noyes, *supra* note 33.

<sup>36</sup> See, e.g., Michele Boldrin & David K. Levine, *Open Source and Proprietary Models of Innovation: Beyond Ideology: PART IV: Collaborative Innovation, the Economics of Innovation, and Constructed Commons: Market Structure and Property Rights in Open Source Industries*, 30 WASH. U. J.L. & POL’Y 325, 336 (2009).

system is a couple years ago.<sup>37</sup> Just yesterday in *The New York Times*, fund manager and Harvard Business School Adjunct Professor named Robert C. Pozen had an op-ed piece very critical of the patent system, suggesting some changes.<sup>38</sup>

What I don't want to be misunderstood about is, I'm not saying only lawyers should be allowed to talk about the patent system. I think it's very good to have economists as part of the debate. But they shouldn't dominate the debate, and people should be careful to see whether they understand the system well enough.

For example, in the Lerner and Jaffe book, they complain that a Federal Circuit decision had double-compensated the successful patent owner by giving double damages.<sup>39</sup> That is, they said that the patent owner in this case, which is called *State Industries v. Mor-Flo Industries*,<sup>40</sup> got reasonable royalty and lost profits.<sup>41</sup> As all of you know, those are alternatives, not things you get both of. But what the professors didn't understand is that those two different forms of damages were for two different products and two different timeframes, and therefore it wasn't double compensation at all. It was single compensation. They just didn't understand how the system works. So they reached a completely false conclusion.

Similarly, Pozen just yesterday talked about how patents are awarded even if the invention isn't what he called "really a breakthrough."<sup>42</sup> Of course, patent law doesn't require that, to get a patent, you have a breakthrough invention. It just requires that the invention be new and nonobvious and have a certain utility.<sup>43</sup> That has been the law for a century and a half.<sup>44</sup> But Pozen,

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<sup>37</sup> ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT* (2004).

<sup>38</sup> Robert C. Pozen, *Inventing a Better Patent System*, N.Y. TIMES, Nov. 16, 2009, at A33.

<sup>39</sup> JAFFE & LERNER, *supra* note 37, at 114–15.

<sup>40</sup> 883 F.2d 1573 (Fed. Cir. 1989).

<sup>41</sup> *Id.* at 1576.

<sup>42</sup> See 35 U.S.C. §§ 101–03 (2006) (“[P]atent validity [is] dependent upon three conditions: novelty, utility and nonobviousness.”).

<sup>43</sup> *Id.*

<sup>44</sup> Edward C. Walterscheid, *Divergent Evolution of the Patent Power and the Copyright Power*, 9 MARQ. INTELL. PROP. L. REV. 307, 308 (2005).

understandably perhaps, isn't so aware of that. So what he writes suffers a little bit, I think, from the lack of full context, which has also infected the work of some of the other outsiders, I'll call them—meaning not patent lawyers, like most of you are—who have commented.

What about the patent lawyers? What about the other 29,985 corporations? Shouldn't they be heard from? What about the academics who have made a lifetime of scholarly study of the patent system and its effects? Have they been heard from adequately?

If you look at the witness list in the hearings that have gone on intermittently since 2005 in the House and the Senate, almost all of the witnesses were corporate officials, usually chief patent counsel or some similar official.<sup>45</sup> No judges, hardly any professors, hardly any litigators. They are the very people you would have expected, or I would have expected, to be front and center in the hearings, because they know the most. They do this every day. It doesn't mean they have a monopoly of wisdom, but they would certainly be entitled to be heard from. But mostly they weren't.

If you read the Senate report sending this bill to the floor, it skips over every single controversy and just cites the witnesses who support the provisions that the senators chose to leave in the bill,<sup>46</sup> with no explanation of why the contrary statistics or analysis or testimony was ignored. So the report isn't nearly as impressive when you consider the underlying testimony as it is when you just read it. It's very erudite, it's very thorough, it's very detailed, it has a million footnotes, and so on.

Meanwhile—meaning since the first patent bill was introduced in the House in 2005<sup>47</sup>—the Supreme Court has issued several landmark patent cases,<sup>48</sup> and so has the Federal Circuit.<sup>49</sup> So a great many of the problems that the patent bill was intended to

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<sup>45</sup> See, e.g., ABA Material on Proposed Patent Reform Legislation, 110th Cong. § 2 (2008).

<sup>46</sup> See generally STAFF OF S. COMM. ON THE JUDICIARY, 110TH CONG., REPORT ON THE PATENT REFORM ACT OF 2007 (2007).

<sup>47</sup> Patent Reform Act of 2005, H.R. 2795, 109th Cong. (2005).

<sup>48</sup> See, e.g., eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006).

<sup>49</sup> See, e.g., *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

address have been solved, in the meantime, and are no longer much in need of a solution, if at all:

- Of course, in the *eBay*<sup>50</sup> case, the Supreme Court ended automatic injunctions, permanent injunctions<sup>51</sup>—if there ever was really such a thing. I don't think there was, but that's what they were told.
- *KSR*<sup>52</sup> raised the bar for nonobviousness to get a patent from the Patent Office or sustain it in court.<sup>53</sup>
- At the Federal Circuit, in *Seagate*,<sup>54</sup> we addressed the willfulness problem and some deficiencies and criticisms of it<sup>55</sup> and, I think, pretty well solved that.
- With a great hue and cry about excessive reasonable royalty damages, in recent cases in our court, including the *Lucent*<sup>56</sup> case, we addressed that; I think we pretty well solved it.
- A lot of criticism of Eastern Texas and all the patent suits tending to go down there. In three recent decisions,<sup>57</sup> we addressed and, I think, largely resolved that problem. We have four more mandamus petitions now, which are very likely to put further restraints on who can file in

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<sup>50</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>51</sup> *Id.* at 393 (holding that for disputes arising under the Patent Act, the plaintiff must satisfy the generally applicable four-factor test for permanent injunctive relief).

<sup>52</sup> *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).

<sup>53</sup> *Id.* at 403. The patent was invalid because "a pedal designer of ordinary skill starting with Asano would have found it obvious to put the sensor on a fixed pivot point." *Id.* at 424–25.

<sup>54</sup> *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

<sup>55</sup> *See id.* at 1370–72.

<sup>56</sup> *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324–36 (Fed. Cir. 2009).

<sup>57</sup> *In re Genentech Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *In re Volkswagen of Am., Inc.*, 566 F.3d 1349 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

Texas.<sup>58</sup> So I think that problem could be said to be well on the way to solution as well.

There are other problems with the legislation. Even if it's very well balanced in terms of hearing from all industries, all technologies, all types and sizes of companies, one problem with legislation is that it's like a snapshot. Congress acts and it's not likely to act again for another generation or two. The last time we had a major patent statute was 1952.<sup>59</sup> This was more than half a century ago. If they pass S. 515, it's likely to be another half-century before they have a comprehensive revisiting of these issues. So if they get anything wrong, it's likely to be permanent, and if it's costly, it's likely to roll up the costs year after year after year.

What about litigation? What about courts? In one way, they have an advantage, and in other ways, they don't. We can't do the kind of massive analysis that Congress can do. We don't have the Congressional Research Service and the Budget Office and so on working for us. But we can evolve things in a gradual way so that there is more predictability, and we can avoid the problem of permanent mistakes. If we make a mistake, we can fix it, because the next case comes along, and they come in a steady stream. But Congress, as a realistic matter—theoretically they could do it, but realistically they aren't going to do it. So there are certain advantages to letting the remaining fixes that may be needed for the problems that haven't been fully solved be done mainly by the court, and not by Congress.

What could Congress do constructively? What it could do is fix the Patent Office, not only by giving it some money, but also, for example, by authorizing it to have workforce located other than in Washington, D.C. Every other federal agency I can think of, of any size or note, has offices in multiple cities all around the United States. In the Patent Office, every single examiner is in Washington, D.C.; every single supervisor is in Washington, D.C.

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<sup>58</sup> *In re* VTech Commc'ns, Inc., No. 909, 2010 WL 46332 (Fed. Cir. Jan. 6, 2010); *In re* Wi-LAN Inc., 358 F. App'x 158 (Fed. Cir. 2009); *In re* Nintendo, 589 F.3d 1194 (Fed. Cir. 2009); *In re* Hoffmann-La Roche Inc., 587 F.3d 1333 (Fed. Cir. 2009).

<sup>59</sup> See Patent Act of 1952, ch. 950, 66 Stat. 792 (codified as amended at 35 U.S.C. (2006)).

How about all the unemployed engineers in Detroit? It might be a good idea to reemploy them, make them patent examiners, and open an office in Detroit, or other cities around the country. But it takes congressional permission.

Fee-setting authority: Right now Congress sets the fees.<sup>60</sup> The Patent Office can't do it. So when the need for more money goes up, the Patent Office is stuck. They are helpless, unless Congress will cooperate, which it rarely gets around to doing. True enough, it's very busy with lots of other major and mind-numbing problems—health care, climate change, and all the rest. But because of that, I think Congress needs to give fee-setting authority to the Patent Office.

Congress should also permanently ban itself from diverting patent fee money the way it did for the six or seven years that I mentioned earlier.

The other thing that Congress could do is not add to the burdens of the already-dysfunctional Patent Office. Several provisions of this bill are going to give large chunks of new duties, difficult duties, to this beleaguered Patent Office.<sup>61</sup> It seems like a very odd thing. The workforce is going down, the backlog is going up, they can't do their job well or rapidly, so we are going to give them even more work, and new and different work that they have never tried before and have no background or experience in. It doesn't sound to me like a very good recipe for improvement.

There are many other issues, including whether to give the Patent Office substantive rulemaking authority.<sup>62</sup> I think if that were done—and it's being requested<sup>63</sup>—the result would be that the Patent Office would issue regulations which would basically erase the half-century of case law of the Court of Customs and Patent Appeals that preceded the Federal Circuit, and of the Federal Circuit these last twenty-seven years. The result of that

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<sup>60</sup> See 35 U.S.C. § 41.

<sup>61</sup> See Patent Reform Act of 2009, S. 515, 111th Cong. § 9 (2009). The Patent and Trademark Office will have the power to set fees. *Id.*

<sup>62</sup> See, e.g., Letter from Gary Locke, Commerce Sec'y, U.S. Dep't of Commerce, to Patrick J. Leahy, Chairman, Comm. on the Judiciary, U.S. Senate (Oct. 5, 2009), available at <http://judiciary.senate.gov/resources/documents/111Documents.cfm>.

<sup>63</sup> See, e.g., *id.*

would be more uncertainty, which means more delay and more costs and more problems for not just patent lawyers, but their clients, who are the people making the economy hum.

I'm not trying to suggest that the courts are perfect or doing everything right. I'm actually quite critical of a lot of things going on in the courts. But once again, a lot of the numbers get to be quite distorted, and the truth never seems to catch up with the dramatic allegation that is thrown out by self-interested people. For example, it's said that half the time the Federal Circuit reverses the claim construction of the district judge.<sup>64</sup> Not true. Not even close to true. It's not 50%, it's not 40%, it's not even 30%. The total reversal rate in our court on all issues in patent infringement cases is 33%,<sup>65</sup> and they are not all claim construction issues. So the actual reversal rate is somewhere between 25 and 30%.

It may still be too high. I think it may be slightly too high. But it's not at the level that you keep hearing about because of the distortions that get thrown into the debate.

We could improve that by granting a greater level of deference than we have so far on claim construction to the district courts.<sup>66</sup> I'm a proponent of that. Six other colleagues have indicated in public opinions<sup>67</sup>—for example, in the *Amgen*<sup>68</sup> case—that they think we should revisit our precedent, *Cybor*,<sup>69</sup> that said no deference; it's all pure law de novo, from start to finish.<sup>70</sup>

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<sup>64</sup> Hon. Paul R. Michel, *The Court of Appeals for the Federal Circuit Must Evolve to Meet the Challenges Ahead*, 48 AM. U. L. REV. 1177, 1191–93 (1999); see Kevin E. Noonan, *Claim Construction at the Federal Circuit: A District Court Judge's View*, PAT. DOCS (Dec. 2, 2008), <http://www.patentdocs.org/2008/12/claim-construction-at-the-federal-circuit-a-district-court-judges-view-1.html?cid=141278776>.

<sup>65</sup> See *United States Court of Appeals for the Federal Circuit Statistics*, U.S. CT. APPEALS FOR FED. CIR., <http://www.cafc.uscourts.gov/statistics.html> (last visited Apr. 12, 2010) [hereinafter *Federal Circuit Statistics*]. Fifteen percent of all patent infringement cases were reversed or vacated in full in fiscal year 2009, while 25% of all patent infringement cases were affirmed in part. *Id.*

<sup>66</sup> Michel, *supra* note 64, at 1191–93.

<sup>67</sup> See, e.g., *Sys. Mgmt. Arts, Inc. v. Avesta Techs., Inc.*, 137 F. Supp. 2d 382, 399 (S.D.N.Y. 2001).

<sup>68</sup> *Amgen Inc. v. F. Hoffmann-La Roche, Ltd.*, 580 F.3d 1340 (Fed. Cir. 2009).

<sup>69</sup> *Cybor Corp. v. Fas Techs.*, 138 F.3d 1448 (Fed. Cir. 1998).

<sup>70</sup> See *id.* at 1454–55 (Fed. Cir. 1998) (upholding a de novo standard of review).

We are addressing some other things. We have addressed some recently, like cleaning up the product-by-process confusion,<sup>71</sup> cleaning up the proper role of dictionaries in claim construction.<sup>72</sup> On December 7, we will have an en banc oral argument dealing with the written-description requirement that will straighten some things out.<sup>73</sup> So we are on the march, but there are still problems, not only of speed, but doctrinal problems. Many of them are being addressed. Many have already been addressed by us or by the Supreme Court, as I mentioned before.

We don't really have time to get into too much of a discussion about the Supreme Court. But the Supreme Court has a great challenge when it tries to intervene in complex areas of patent law doctrine, whether it's injunctions in *eBay*<sup>74</sup> or obviousness in *KSR*<sup>75</sup> or other cases—*MedImmune*<sup>76</sup> and some of the others. Why is that? I have been on the court twenty-two years, nearly, and in my tenure, I have sat on and ruled on 1600 patent cases. There is no justice on the Supreme Court today who has ruled on more than about eight patent cases in his whole life. So the comparative advantage is revealed by the numbers.

I'm not saying the Supreme Court should stay its hand. Every court needs a reviewing court. I'm in a hierarchical system, where I'm sworn to uphold the acts of Congress, the commands of the Constitution, and the precedents of the Supreme Court, and I do my level best every day to do exactly that. But that doesn't mean that the Supreme Court has an easy time getting it right in patent law, when it has so few cases and so little experience and when it often doesn't get the full picture and doesn't really understand the case law.

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<sup>71</sup> See, e.g., Gregory S. Maskel, *Product-by-Process Patent Claim Construction: Resolving the Federal Circuit's Conflicting Precedent*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 115 (2006).

<sup>72</sup> See, e.g., Phillips v. AWH Corp., 415 F.3d 1303, 1318–24 (Fed. Cir. 2005); Ehab M. Samuel, Phillips v. AWH Corp., Inc.: *A Baffling Claim Construction Methodology*, 16 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 519, 521–22 (2006) (relying on dictionaries alone encourages superficial claim construction with inadequate technical understanding of the invention).

<sup>73</sup> Ariad Pharms., Inc. v. Eli Lilly & Co., 598 F.3d 1336 (Fed. Cir. 2010).

<sup>74</sup> See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>75</sup> *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).

<sup>76</sup> *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

For example, in the *KSR* case, it was said that the Federal Circuit had a rigid rule and that it used the so-called teaching-motivation-suggestion test as the sole test,<sup>77</sup> neither of which was true. The Supreme Court was, in my opinion, substantially misled by interested parties. Its opinion reflected the input that it received and, in my opinion, was not as helpful as it could have been.

In fact, there is a certain respect in which the *KSR* decision is almost silly. We had a test that used the phrase “motivation to combine.”<sup>78</sup> The unanimous opinion for the Supreme Court, written by Justice Kennedy, said that what you look for is a “reason to combine.”<sup>79</sup> What’s the difference? “Motivation” to combine, “reason” to combine. They are different words that mean, obviously, the same thing.

So they have a hard time with that. We have a hard enough time ourselves, but we have a lot more experience with it.

What about *Bilski*? The Supreme Court has heard the argument.<sup>80</sup> The decision will probably come out in a few months. I’m not in the business of making predictions, but it’s too hard to resist making a stab at it. I’m going to suggest that they will affirm the result; they will say that the application claims were not patentable—exactly what we said—but they’ll say that our reasoning wasn’t good enough. They will probably say, as they did in *KSR*,<sup>81</sup> that we were too rigid. We’ll get dinged for being rigid again.<sup>82</sup>

The funny thing is, if you read our opinion closely, it wasn’t rigid. First of all, it was utterly plagiarized right out of Supreme

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<sup>77</sup> *KSR*, 550 U.S. at 419 (“There is no necessary inconsistency between the idea underlying the [teaching-suggestion-motivation] test and the Graham analysis. But when a court transforms the general principle into a rigid rule that limits the obviousness inquiry, as the [Federal Circuit] Court of Appeals did here, it errs.”).

<sup>78</sup> *Teleflex, Inc. v. KSR Int’l Co.*, 119 F. App’x 282, 288 (Fed. Cir. 2005) (criticizing the lower court for failing to provide a sufficient motivation to combine), *rev’d*, 550 U.S. 398 (2007).

<sup>79</sup> *KSR*, 550 U.S. at 418.

<sup>80</sup> *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (en banc), *aff’d sub nom. Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

<sup>81</sup> *KSR*, 550 U.S. at 419.

<sup>82</sup> The Supreme Court later affirmed the Federal Circuit’s judgment but ultimately disapproved of the “machine-or-transformation test” as the sole test for determining the patentability of a process. *See Bilski v. Kappos*, 130 S. Ct. 3218, 3231 (2010).

Court cases themselves, not out of our own cases.<sup>83</sup> Secondly, we didn't say it was the test for all time; we said it's the test for now, and we openly said its application to areas like software, medical diagnostics, and business methods was not very clear.<sup>84</sup> We said there might have to be new and different tests created for new and different technologies in the future.<sup>85</sup>

Hopefully, the full picture will be before the Supreme Court in *Bilski* more than it was, apparently, in the case of *KSR*, before they actually rule.

Now I want to get back briefly to the Senate and then come to a conclusion.

The Supreme Court's ability, whatever it is, depends heavily on selecting the right case for its review, because its reviews are so seldom. My own view is that *KSR* was not a well-chosen case. It wasn't a case where we said that an obvious-seeming invention was nonobvious. All we said was there were no findings by the trial judge, so we couldn't review it.<sup>86</sup> We didn't uphold the patent.<sup>87</sup> We sent it back to the trial judge to make the missing findings.<sup>88</sup> Why is that a cert-worthy case? It wasn't even a precedential opinion. It was a very short, vanilla kind of opinion.

So maybe they took the wrong case. Maybe *Bilski* is another instance of taking what may not be the right case.

So that's part of the challenge. And part of the challenge also is that the Supreme Court tends to look almost exclusively to its own precedent, and a lot of its own precedent is from long before the 1952 Act. In fact, a large portion of it is from the 1800s.<sup>89</sup> Yet they tend, sort of reflexively, to go back and quote their old cases and ignore all the things that have happened since. They also tend

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<sup>83</sup> *Bilski*, 545 F.3d at 952 (quoting *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972)).

<sup>84</sup> *Id.* at 962 (questioning "[w]hich, if any, of these processes qualify as a transformation or reduction of an article into a different state or thing constituting patent-eligible subject matter?").

<sup>85</sup> *See id.*

<sup>86</sup> *Teleflex, Inc. v. KSR Int'l Co.*, 119 F. App'x 282, 290 (Fed. Cir. 2005).

<sup>87</sup> *Id.*

<sup>88</sup> *Id.*

<sup>89</sup> *See, e.g.*, *Egbert v. Lippman*, 104 U.S. 333 (1881) (barring patent in case of public use); *Hotchkiss v. Greenwood*, 52 U.S. 248 (1850) (introducing concept of nonobviousness).

to ignore the full body of Federal Circuit cases. For example, they looked at our *KSR* opinion quite incisively and quite critically, but *KSR* wasn't *the* opinion on obviousness. We had about a dozen cases dealing with obviousness.<sup>90</sup> If they had read all of those cases as a body of law, they would have seen that the doctrine that we created was nowhere near what they were being told by some of the advocates that it was.

So where are we? We're in a situation where the courts are doing about as well as they can, except at the margins, where the PTO needs to be rescued and where Congress needs to be more careful. Listen to some of the things Congress has been told.

"There's an absolute explosion of patent infringement litigation, a huge spike in patent litigation."<sup>91</sup> But if you look at the metrics, it's hard to see how that's true. For the last twenty years, the level of filings in patent infringement cases has been exactly 1% of the number of patents in force—unchanged over twenty years.<sup>92</sup> So how is that a litigation explosion?

It was told to Congress, "We have to have many radical changes, including interlocutory appeals, because we can't stand to have so many expensive retrials of patent cases."

Most patent cases never get tried once, much less twice. So this was, if not fiction, at least a highly distorted assertion made to Congress. They had difficulty, it seems, in sorting out the truthfulness of some of these things.

It was also said that there was a huge number of frivolous lawsuits.<sup>93</sup> But if you look at the statistics of how many lawsuits where there were Rule 11 violations, findings of frivolity, or shifting of attorneys' fees—almost none. Wouldn't you expect

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<sup>90</sup> See, e.g., *Duro Last v. Custom Seal*, 321 F.3d 1098 (Fed. Cir. 2003); *U.S. Surgical v. Ethicon*, 103 F.3d 1554 (Fed. Cir. 1997); *Connell v. Sears*, 722 F.2d 1542 (Fed. Cir. 1983).

<sup>91</sup> See *Data from Stanford Shows 2007 Spike in Patent Defendants*, PRIOR ART (Dec. 11, 2008), [http://thepriorart.typepad.com/the\\_prior\\_art/2008/12/stanford-iplc-release.html](http://thepriorart.typepad.com/the_prior_art/2008/12/stanford-iplc-release.html).

<sup>92</sup> See *Federal Circuit Statistics*, *supra* note 65.

<sup>93</sup> See Lee Petherbridge, Response, *On Addressing Patent Quality*, 158 U. PA. L. REV. 13, 17 (2009) (discussing how to discourage frivolous lawsuits).

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that if there were huge numbers of plainly frivolous lawsuits, you would see the courts fighting back in that way?

Congress was told also that the damages in recent years had become grossly excessive, particularly reasonable royalty damages in component cases<sup>94</sup>—you know, the one chip covered by a patent, and the argument was made that the price of the total computer was being used as the metric, and the result was grossly inflated damage awards. If you look at the PriceWaterhouse studies going back over the same twenty-year period, the median patent infringement award hasn't changed more than a few hundred thousand dollars.<sup>95</sup> The median is about \$3 million.<sup>96</sup> That hasn't changed over all these years.

So again it looks like a lot of things have been urged on Congress that may not be completely accurate, or at least not in context.

Is it too late to try to help Congress have a better sense of the context? I don't think so. The latest intelligence that comes my way is that the Senate leaders have basically resolved that they can't put this bill on the floor unless both parties agree and the controversial provisions are somehow compromised satisfactorily to all companies and industries. At the moment, there is furious behind-the-scenes negotiation going on.<sup>97</sup> There may, in fact, end up being more hearings. There certainly is a chance for input. It's my thesis that Congress is in desperate need of additional input from knowledgeable lawyers like the men and women in this room and knowledgeable academics like Professor Hansen.

So it seems fitting that we meet in a law school auditorium, because I'm going to try to give you an assignment. I'm going to

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<sup>94</sup> See generally Symposium, *Frontiers of Intellectual Property: Patent Reform, Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007) (analyzing problems that arise in calculating reasonable royalty damages in cases where a patent covers one component of a complex product).

<sup>95</sup> PRICE WATERHOUSE COOPERS, 2009 PATENT LITIGATION STUDY 1, 5 (2009), <http://www.pwc.com/us/en/forensic-services/publications/assets/2009-patent-litigation-study.pdf>.

<sup>96</sup> *Id.* at 6.

<sup>97</sup> See generally Gene Quinn, *Patent Reform Reportedly Top Priority in Congress*, IP WATCHDOG (Feb. 9, 2009), <http://www.ipwatchdog.com/2009/02/09/patent-reform-reportedly-top-priority-in-congress/id=1974>.

urge you to engage in an effort to try to help Congress better understand how the patent system in this country actually operates, so that when it makes these fateful decisions, it can do so in a fully informed way and come out with a product that will be constructive for the future health, not just of the patent system, but of the country.

Thank you for your attention. I look forward to your questions.

PROF. HANSEN: That certainly was a lot of interesting food for thought—somewhat depressing thought, but still food for thought.

Why don't you write a letter to Congress, Paul?

CHIEF JUDGE MICHEL: I did write a letter. I pointed out to Congress that the damages provision then in the legislative language would require a trial of a difficulty and length apparently unprecedented in civil litigation, which would greatly add to the cost and delay<sup>98</sup>—the very two things that everybody, rightly, was complaining about were already intolerably high. Some changes were made, but not as a result of my letter, but as a result of other industries weighing in. I actually never got any response or acknowledgement to my letter, either from the House or the Senate, either in 2007 or in 2008. So they apparently weren't interested.

No one from our court was called as a witness. No district judge was called a witness. No patent litigator that I can name was called as a witness. Lots of self-interested company people were the witnesses.

PROF. HANSEN: That is different from the situation in the U.K. where judges have significant input in legal legislation.

Why don't we open it up to thoughts, comments, and questions.

QUESTION: Thank you, Your Honor. My name is Demetrius Moshkoleis (phonetic). I'm a Fordham alum.

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<sup>98</sup> Letter from Hon. Paul R. Michel to Shanna A. Winters (June 7, 2007), *available at* <http://www.patentbaristas.com/wp/wp-content/uploads/2007/06/michel-letter-6-7-071.pdf>.

I have many questions, but I will only restrict it to one now and let other people ask, too. You touched on many different issues, but I didn't hear anything about the suggested need for a transition to the first-to-file system<sup>99</sup> instead of the first-to-invent.<sup>100</sup> I think the U.S. is the only country right now that has the first-to-invent system,<sup>101</sup> with its pros and cons. I would like your opinion about that, weighing the advantages and disadvantages.

Thank you.

CHIEF JUDGE MICHEL: Professor Hansen mentioned judges, myself particularly, writing a letter. But I should acknowledge—some of you may not know this—that judges are restricted in what they can say to Congress. On matters of pure policy, that's thought to be exclusively in the province of Congress, and we are the implementers of their decisions, not the influencers of their decisions.

Where we are allowed to comment, and really required to comment, is on what the impact will be on the court. That's why, on the interlocutory appeal and damages issues, I felt I was entirely within my proper sphere to be pointing out downstream consequence to Congress.

But I didn't comment, and I wouldn't, on something like whether first-to-file versus first-to-invent should be instituted in our law. It's outside my proper sphere, number one. And number two, frankly, I don't know enough to have a well-informed opinion about whether, all things considered, on balance, we ought to make that shift, and ought to make it now. My hunch is yes, but I frankly don't know enough, so I really don't have a position on that issue.

PROF. HANSEN: How does our patent system compare to the U.K.—innovation policy, practical issues such as the number of

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<sup>99</sup> See Jonathan W. Parthum & Philippe J.C. Signore, *Patent Reform: The Debate Continues into 2010*, 997 PLI/Pat 357, 374 (2010) (discussing the proposed initiative of shifting from a "first-to-invent" system to a "first-to-file" system in which the first inventor to file his invention at the USPTO is awarded potential patent rights).

<sup>100</sup> See *id.* ("In a first-to-invent system, when two or more independent inventors are seeking patent protection on the same invention, the patent will be given to whoever was the first inventor between the two.").

<sup>101</sup> *Id.*

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examiners, litigation expenses, frivolous lawsuits, etc.? How do we measure up?

CHIEF JUDGE MICHEL: Badly. Discovery is much faster and cheaper and less disruptive.<sup>102</sup> Trials are faster. The quality is very high. Of course, they don't have juries in patent cases,<sup>103</sup> an added complication that we have here. They have a very good appellate court, in my opinion. They have strong remedies.<sup>104</sup> They have strong deterrents against frivolous lawsuits. They readily shift fees onto the loser if the lawsuit is very weak.<sup>105</sup> That keeps frivolous lawsuits or near-frivolous lawsuits at bay.

So I think, on almost every point you could use as a comparison, the English High Court does much better than we do now.

PROF. HANSEN: What about the quality of patents being granted under the EPO or the U.K. Patent Office?

CHIEF JUDGE MICHEL: I don't know too much about the quality of patents issued in England or elsewhere in the European Union, so I probably shouldn't say too much about that. I'm told that the level of experience in, for example, the German Patent Office and the European Patent Office is vastly higher than the level of experience now available in the U.S. Patent Office. I would infer from that that they are probably doing a better job in terms of quality, speed. I just don't know.

QUESTION: My name is Chuck Miller. I'm a patent practitioner.

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<sup>102</sup> See *Patent Litigation in the United Kingdom*, LADAS & PARRY LLP, [http://www.ladas.com/Litigation/ForeignPatentLitigation/UK\\_Patent\\_Litigation.html](http://www.ladas.com/Litigation/ForeignPatentLitigation/UK_Patent_Litigation.html) (last visited Apr. 7, 2010).

<sup>103</sup> See *id.*

<sup>104</sup> See *id.* The 1977 Patents Act specifically included remedies for contributory infringement for the first time. *Id.*

<sup>105</sup> See, e.g., Virginia G. Mauer, Robert E. Thomas & Pamela A. DeBooth, *Attorney Fee Arrangements: The U.S. and Western European Perspectives*, 19 NW. J. INT'L L. & BUS. 272, 308-15 (1999). "Section 51(1) of the Supreme Court Act 1981 gives most English courts discretion to allocate the costs of proceedings, and 51(3) gives the court the 'full power to determine by whom and to what extent costs are to be paid.'" *Id.* at 311 n.133.

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Could you comment on your view as to the effectiveness of mediation that is being done in some cases in the Federal Circuit? My concern is this: when parties mediate at your level, if it results in a settlement agreement, which may be confidential—I'm not sure—it prevents the formation of jurisprudence that the Federal Circuit should be creating for reference in future cases.

CHIEF JUDGE MICHEL: Those are very thoughtful questions. We get about 400 patent infringement appeals a year. We also get a stream of infringement cases, as you know, from the International Trade Commission, and we get the Patent Office rejections that are appealed from the examiner to the board to us.

But focusing just on the infringement cases, we get about 400 a year. About 100 go away on their own, so we adjudicate about 300. We settle thirty to forty per year. So we're still grinding out lots and lots of opinions in all the other cases. The settlements have helped us stay far more current than we otherwise would be able to. I calculate that the mandatory mediation program that we instituted a few years ago gives us the equivalent of a judge and a half more, the power of an additional judge and a half. So we're that much more careful and expeditious than we would otherwise be, and there is still plenty of case law grinding out, several hundred a year.

QUESTION: Good evening, Chief Judge Michel. I'm Jeffrey Butler, also a patent practitioner.

I was pleased to hear your comments, Chief Judge Michel, on the possible reconsideration of the *Cybor* issue. My question goes to another aspect of claim construction, and that is the court's view on where we are post-*Phillips*.<sup>106</sup> A lot of clients, a lot of practitioners, as you know, Your Honor, had high hopes that *Phillips* would resolve a great many issues and questions. I think a great many clients and practitioners probably don't feel that all those issues were resolved and that we are left with a bit of an open

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<sup>106</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303, 1313 (Fed. Cir. 2005) (en banc) (restating the basic principles of claim construction and that the basic goal of claim construction is to determine the meaning of a claim term as understood by a person of ordinary skill in the art as of the effective filing date); *accord Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir. 1996).

playing field when it comes to advising the clients and getting, prior to the trial judge, claim construction, much less before we get to your court.

Is there some effort and focus on your court in streamlining the claim-construction process so it's more explicable to clients and there is more foreseeability at the client level?

CHIEF JUDGE MICHEL: Again, very good questions, multiple questions.

I think many of us feel that *Phillips* solved an aberrational problem of over-reliance on dictionaries,<sup>107</sup> but it didn't solve some of the other problems in claim construction. So there is more work to do.

I don't want to speak on behalf of the court because it's really not proper. I don't necessarily know what all of them think on any given issue.

PROF. HANSEN: Do you care what they think?

CHIEF JUDGE MICHEL: Of course. It takes two votes in every panel, and seven out of twelve in every en banc. So you have to care what your colleague thinks.

There is room for improvement. It is needed. I happen to favor the view of relying quite heavily on the written description portion of the patent document as the source of trying to understand the scope of the claims and the meaning of key words or phrases.<sup>108</sup> The more you depart from that, the more indeterminate you make it. The later testimony that comes up in trial isn't available to you now when you are advising a client about whether he infringes a certain claim or not. So I would like

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<sup>107</sup> See *Phillips*, 415 F.3d at 1310–24 (repudiating the dictionary-first approach to claim construction). For the leading case in this repudiated line of jurisprudence, see *Texas Digital Systems, Inc. v. Telegenix, Inc.*, 308 F.3d 1193 (Fed. Cir. 2002).

<sup>108</sup> See *Vitronics*, 90 F.3d at 1582 (“It is well-settled that, in interpreting an asserted claim, the court should look first to the patent itself, including the claims, the specification and, if in evidence, the prosecution history. Such intrinsic evidence is the most significant source of the legally operative meaning.” (citation omitted)).

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to see more reliance on the patent document itself and less reliance on more remote and extraneous kinds of sources.<sup>109</sup>

I think it's a fair criticism. And even if we change the *Cybor* rule of totally de novo review,<sup>110</sup> that doesn't solve all of the problems. There is a methodology problem. We have heavy responsibility, as the patent court, the "Patent Supreme Court," as we're sometimes called, to work on that. It probably has to be done en banc, as *Phillips* was. Going en banc is a big challenge. There are several colleagues who are reluctant, as a matter of principle, in all cases to rehear en banc.

We have one vacancy now, so the denominator has changed from twelve to eleven. Therefore, the numerator required has changed from seven to six. So I need five other judges to agree with me to take a case en banc and resolve a conflict or straighten out some problem, like the ones you raise. I can often get three or four or five. Getting the last vote or two is often extremely difficult. But I'm doing better now than I was doing several years ago, so I'm hopeful.

QUESTION: John Richards, practitioner and adjunct here.

One of the effects which has come from *Phillips* in terms of drafting applications is that people are putting less now into their applications. There is much less discussion of the prior art now than there used to be. Object clauses are virtually gone, mainly because of what has been seen sometimes as being strange interpretations of these by the Federal Circuit. Do you think that's a good thing?

CHIEF JUDGE MICHEL: A good thing to say less in a patent application?

QUESTIONER: Yes.

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<sup>109</sup> See *id.* at 1583 ("In most situations, an analysis of the intrinsic evidence alone will resolve any ambiguity in a disputed claim term. In such circumstances, it is improper to rely on extrinsic evidence. . . . The claims, specification, and file history, rather than extrinsic evidence, constitute the public record of the patentee's claim, a record on which the public is entitled to rely. . . . Allowing the public record to be altered or changed by extrinsic evidence introduced at trial, such as expert testimony, would make the right meaningless." (citations omitted)).

<sup>110</sup> *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1451 (Fed. Cir. 1998) (en banc). ("[C]laim construction, as a purely legal issue, is subject to de novo review on appeal.").

CHIEF JUDGE MICHEL: No. It's a terrible thing. I think it's based on a false reading of our case law. People sometimes extrapolate wildly from what the case actually held or even what the court said, other than perhaps in blatant dicta.

The people who say, "Don't read your rival company's patents because you'll get hung for willful infringement"—I think that's ridiculous. People who say, "Don't ever discuss what problem this invention is solving because it's going to somehow come back and bite you"—I think that's also a very exaggerated notion.

Part of the problem with ambiguity in patent claims is that they are drafted deliberately to be ambiguous. Let's be honest. Patent prosecutors are trying to get maximum scope, so they are always including some claims that are really well beyond what the inventor invented, I would say. That's okay. The job of the examiner is to allow the claims that really were what the person invented and disallow the overbroad claims. They don't do that very well, and that goes back to the problem of resources and inexperience.

But because the document is deliberately drafted to be ambiguous, we have to be a little bit forgiving when it's not always predictable what the scope is. It's inherently difficult to have very simple or clear-cut rules and to be able to say in every case, "The scope of this patent is exactly three yards wide, and not one inch more or one inch less." We're never going to get to that. We can do better than we are now, but we're never going to get to nirvana.

QUESTION: John Pegram, practitioner.

I would like to make a comment and then move to a question.

The comment is that, with the median value of awards at around \$3 million,<sup>111</sup> and especially with the great increase in the discovery activity, there is a whole lot of wiggle room down there that your court never gets to see, and frequently the district judges

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<sup>111</sup> See generally Jay P. Kesan & Gwendolyn G. Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 WASH. U. L. REV. 237 (2006). "There is general agreement that the costs associated with pursuing a patent lawsuit are high. Previous authors have cited legal costs running . . . to \$3 million per suit. . . . These costs create incentives for parties to settle their dispute rather than seek a final judgment on the merits." *Id.* at 243.

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don't get to see. Nominally, there are around 2000 or more cases filed a year in the district courts, but for many, many years it has hovered around 100 trials a year. There can be, therefore, bad behavior, frivolously brought lawsuits. But the situation, with this great expense of litigation in our system, attracts people who are willing to litigate and then settle for less than the cost of litigation.

So I think these problems do exist, but I think that you are perhaps sheltered from them in the Federal Circuit, because those cases—no one can afford to bring them far enough to get a resolution there. They are settling for less than the cost of litigation.

CHIEF JUDGE MICHEL: We are not sheltered from much of anything. I have four different practitioner advisory groups, one on e-discovery, one on damages, one on other litigation tactics, and one on model jury instructions. I get an earful all the time. It's very healthy, and I appreciate it. But don't feel that I'm highly sheltered. I'm really not.

I think there are problems of extortionate filings that lead to settlements because of the cost of litigation. To me, the solution is, let's fix the cost of litigation. Civil litigation in America is unnecessarily slow and expensive. It doesn't have to be that way. It isn't that way in England. It's not just patent cases. The discovery rules apply in all civil cases, and they frequently create an extortionate type of situation, where somebody may feel, "On the merits, I should easily win this, but it will cost so much, it would be better to just pay these people half a million or whatever to go away."

That's a terrible situation to have. We ought to fix that. We can fix that. We can shift attorneys' fees. We can punish people for frivolous lawsuits. We should do that. That will help a lot.

I agree that there are problems. There are problems in every corner of the system. There's no part of it that's perfect. There's no player in the system that I think is beyond criticism or improvement—not the courts, not Congress, not the PTO, and not the people who bring lawsuits. You're absolutely right. I think we can do something about that. And we should.

PROF. HANSEN: You're optimistic about changing it?

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QUESTIONER: Would it take Congress to change some of these things?

CHIEF JUDGE MICHEL: I think the discovery rules can be changed, if Congress will acquiesce. It doesn't have to engineer the change. It just has to not veto it. The Supreme Court also has a veto opportunity but almost never takes it. So if the Judicial Conference, of which I'm a voting member, were to change the discovery rules, it's likely that Congress and the Supreme Court would acquiesce, and better discovery rules would go into effect.

I am optimistic. Professor Hansen chided me a little bit. Why am I optimistic? I'm optimistic because vast portions of the corporate landscape are fed up with the civil litigation system and think it's wildly too expensive and too slow and too disruptive and too unpredictable. And they are the people that have influence, not only in Congress, but everywhere.

So I really do think there is quite a good environment right now to make some important improvements in the practicalities of patent litigation, including on the point that you mentioned.

QUESTIONER: The question that I would like to tempt you on is—

PROF. HANSEN: How about you as a patent practitioner? Are you optimistic about change?

QUESTIONER: I'm not highly optimistic. I was involved in some attempts at rulemaking twenty-five years ago, and it really was only a small incremental bit of progress rather than achieving large goals.

PROF. HANSEN: How many people are optimistic? Let's just get a show of hands.

QUESTIONER: Optimistic about what, Hugh?

PROF. HANSEN: That the discovery system we have in the United States, which is incredibly broad discovery, state and federal, which I think everyone says is just way too much, could be changed.

How many people say, yes, it could be changed?

How many people say no?

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QUESTIONER: You have a huge institution, called lawyers, that has a private interest.

CHIEF JUDGE MICHEL: It won't be easy, but I think it's possible, because there's enough alarm, enough upset by enough different people that there is a potential for change now that didn't exist five, ten, fifteen, twenty years ago. We'll see.

PROF. HANSEN: I am sorry I asked you a question, but you did not get a chance to ask your question.

QUESTIONER: I'm just holding onto the microphone in the hope that I might get a chance. But it's been a great dialogue here, and I have a microphone.

PROF. HANSEN: OK, what's your question?

QUESTIONER: I would like to tempt Your Honor with the subject of juries, just calling attention to three or four points where I see some trend to say certain things do not or may not require a jury. Certainly in *KSR* there was something there about obviousness that people are pointing to and saying this is an issue of law. Of course, it's always been said.

There is in the area of willfulness, I think, only a couple of your court's precedents, which really were not thoroughly argued, that say that willfulness is a matter that—if somebody wants to take that to the jury, where willfulness is only raised in the context of whether there should be an award of increased damages or attorneys' fees, which is placed in the hands of judges—that, of course, is in the legislation.

There is a suggestion in some of the Supreme Court authority on the doctrine of equivalents, that that isn't necessarily for the jury. It simply wasn't reached.<sup>112</sup>

I would like your thoughts on the jury in patent litigation.

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<sup>112</sup> See *Warner-Jenkinson v. Hilton Davis*, 520 U.S. 17, 19–20 (1997). The Court did not decide whether the judge or the jury considers the application of the doctrine of equivalents because it was not necessary. See *id.* at 37–38. Nonetheless, the Court stated that there is “ample support in our prior cases” for the Federal Circuit to hold that it was the jury's responsibility. *Id.* at 38.

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CHIEF JUDGE MICHEL: We have the Seventh Amendment,<sup>113</sup> and I don't think there is any chance that that is going to be changed.

Then the issue is, you are going to have lay juries, trained neither in law nor science and technology, making important decisions in patent cases. So how do you manage that to get the best outcomes?

The way you manage it is, the trial judge only sends to the jury things that have to go to the jury and are justified to go to the jury. If the evidence is clear-cut that a patent is invalid, that it's obvious, the judge should grant summary judgment in that case. Therefore, that issue will never go to the jury.

The same with willfulness. Willfulness, if the predicate is there, is a jury issue as opposed to a judge issue because of the Seventh Amendment. But very often the predicate isn't there. Under *Seagate*, there has to be objective recklessness.<sup>114</sup> If the evidence isn't there to support objective recklessness, that's an issue that never would need to go to the jury.<sup>115</sup>

So I think by more assertive management of what issues are sent to the jury and what issues are resolved by the judge on a motions basis, we can make some very great improvements without changing the Seventh Amendment or our basic system.

QUESTIONER: My observation is that judges prefer not to decide those issues.

PROF. HANSEN: Why?

QUESTIONER: Because life's easier when you send everything to the jury, because you have to deal with a lot of motions, a practice which is very time-consuming. I'm sympathetic to their position.

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<sup>113</sup> U.S. CONST. amend. VII ("In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.").

<sup>114</sup> *See In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

<sup>115</sup> *See id.*

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CHIEF JUDGE MICHEL: Of course, this goes back to the fact that we have 100 judicial vacancies that are not being filled by Congress and the White House, 100 new judgeships that have been desperately needed for years and years and years. You know when the last appellate judge was added in the United States of America? 1990. Almost two decades with no additional appellate judge. Meanwhile, the workload has gone up 50% in numbers and about 200% in difficulty.<sup>116</sup>

PROF. HANSEN: What's the backlog in your court? How long does it take to get an appeal through your court?

CHIEF JUDGE MICHEL: The median time in a patent case is 11.5 months. So essentially it takes us a year, on average, from filing to decision—already too long, although it's much faster than most circuits.

PROF. HANSEN: That's pretty good, actually.

CHIEF JUDGE MICHEL: It compares well with other circuits, but I think most circuits are too slow. I think even we are slower than we ought to be.

But judicial resources are part of the answer, a push from appellate courts to make trial judges do things, even if it's more work, but it's fairer to the parties, because it really shouldn't go to the jury.

PROF. HANSEN: Do you have more cases than other appellate courts? It seems like you do. You have all those personnel matters, for instance. Per judge, do you have more cases than others?

CHIEF JUDGE MICHEL: No. We actually have many fewer cases than nearly all of the other circuits. The First Circuit in Boston and the D.C. Circuit in Washington have similarly light-looking caseloads, just "bean counting," counting the number of filings per year and dividing it by the number of judges.

If you count difficulty, then we have a much heavier caseload. But, of course, people dispute how to measure or rate difficulty.

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<sup>116</sup> See Pamela A. MacLean, *A Tricky Bid for More Federal Judges*, NAT'L L.J., July 2, 2008, available at <http://www.law.com/jsp/article.jsp?id=1202422690814> ("Since 1990, case filings in federal appellate courts have increased 55 percent.").

I think, actually, we have an adequate number of judges for the moment, given our caseload, because we recently got a fourth law clerk—and I had a long battle with Congress to get this—for each of our judges. Every other appellate judge in the federal system has had a fourth law clerk for over a decade, but we only had three. They finally gave us a fourth law clerk. That increases our output significantly. And we now have vastly better computer resources—speed, memory, research capability, research resources, and so on. That has sort of given added judicial capacity to the court.

Given those two things and the mediation program that siphons off thirty or forty patent cases a year, we're okay at twelve active judges.

PROF. HANSEN: The Supreme Court is not busy. They have ninety opinions a year or something like that. You could maybe shuttle some of yours over to them. Start with the easy ones.

CHIEF JUDGE MICHEL: Some people think it already has too many patent cases.

We have about 1500 appeals filed a year. As Professor Hansen alluded to, about a third of them are patent cases, but the other two-thirds are a huge variety of things utterly different from patent cases, including contract cases, tax cases, veteran benefit cases, cases involving childhood vaccine injuries, cases involving civil servants who have been fired, and on and on and on. So we have a very diverse caseload. About a third of it is in the IP area, most of that being patents.

We have a very tough patent caseload, but some of our other cases sort of counterbalance that.

PROF. HANSEN: Are they easier or harder?

CHIEF JUDGE MICHEL: The personnel cases and the veterans cases usually are much easier—not always, but usually.

PROF. HANSEN: In terms of fun, do you have more fun with the patent cases? I would think so.

CHIEF JUDGE MICHEL: Not necessarily, no. I love the patent cases. It was alluded to earlier: How did I get on this patent

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court when I didn't know anything about patents? I really didn't know anything much about patents—

PROF. HANSEN: Who said that?

CHIEF JUDGE MICHEL: The dean or you.

PROF. HANSEN: No, nobody said that. But how did you get on the patent court?

CHIEF JUDGE MICHEL: The answer is worth a moment. I learned patent law because of men and women like you here in this room. I'm a good student. I read briefs for a living. I can read appellate opinions, Supreme Court opinions, precedents of my court. I learned a lot of patent law really fast, and I learned a lot of science and technology really fast the same way, and so did the other two-thirds of our court who are not patent lawyers. We have about the same proportion of patent lawyers on the court as we have patent cases, which roughly makes some sense, I guess. All the rest of us had to learn on the job.

It's not nearly as hard as you would think. You don't really have to become a technical expert. You just have to learn bits and pieces of the technologies that drive the issues in the case. The lawyers are very good at teaching that to us. They have already taught it to the trial judges and juries in many cases. If we're good students, we can learn the technology we need to learn, and we can become quite expert over time in all the nuances of patent law, even if the day before we got appointed to the court, we didn't know a patent from anything.

PROF. HANSEN: Let's go back to fun. What do you have fun with?

Some of the facts discussed tonight have been kind of depressing. I'm trying to go to the upbeat part of this.

What is good about it? It's an intellectual challenge, isn't it, the patent cases?

CHIEF JUDGE MICHEL: The patent cases are lots of fun, and when you can straighten out a problem in patent law, whether it's a practical problem or a doctrinal problem, there is huge satisfaction in that, because you know that good consequences will come out of that—that there will be more scientific advance, that there will be

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benefits to health and prosperity and to good order in the country. That's hugely exciting.

I have never had a boring day on the court. I love being on the court.

PROF. HANSEN: How do you determine who is on which panel?

CHIEF JUDGE MICHEL: It's done at random. It used to be done by the chief judge. We decided that that had too much potential for abuse. The same transition has been made by nearly all of the other appellate courts. They are nearly always now done at random.

So if the panel changes every day of an argument week and the computer assembles the three—we have three panels sit at the same time. We put together three batches of cases, so they aren't all patent cases, but a mix of patent cases, contract cases, and so on. Then the computer randomly assigns one of those three batches to one of the three panels. So we can't rig anything. We have made that a foolproof system.

QUESTION: Chief Judge Michel, when you have a case that is, let's say, an en banc hearing or rehearing and you have a large number of amicus briefs being filed—in a case where a preponderance of amici are on one side as opposed to the other, does that have an effect on your decision making?

CHIEF JUDGE MICHEL: Zero. It's not vote counting. If a brief is persuasive and informative and teaches us something important that the other party's briefs didn't, that has power. If that brief writer is the only one on a certain side and there are twenty-five people on the other side, it doesn't make any difference. It's the power of the one brief that makes the difference. We don't total them up and say, "Well, there are twenty-five briefs on this side and only six on this side. The side with twenty-five must be right." We just don't do that at all.

So the numbers don't count. The persuasive power can count a lot, particularly where it adds to what the parties have already argued.

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PROF. HANSEN: In *Bilski*, how many amicus briefs did you have?

CHIEF JUDGE MICHEL: Thirty-six.<sup>117</sup>

PROF. HANSEN: And how many did you read?

CHIEF JUDGE MICHEL: Thirty-six.

PROF. HANSEN: So every judge, every clerk working on the case read all thirty-six amicus briefs?

CHIEF JUDGE MICHEL: Sure. You know, there are a lot of shortcuts. You learn how to survive.

My wife is an economist. She calculated that, on average, in terms of paid work time, a judge of our court per case, for everything that has to be done in a case—read the briefs, read the record, write the opinion, critique the opinion, read the en banc petition, et cetera, et cetera, everything—eight hours, on average.

We have to read briefs at mach speed, so we have learned lots of shortcuts. We can easily see, “Oh, this was already covered in the other brief. I don’t need to read this section.” So, yes, you can get through thirty-six briefs because there are lots of shortcuts and there is lots of repetition.

But it’s a heavy load.

PROF. HANSEN: Do you have any guide to an effective amicus brief that you would like to share with us?

CHIEF JUDGE MICHEL: Sure. What we really need to know more than anything else, and are seldom told, is, what has been the practical downstream effect of the rule that is being revisited in this appeal? We know all the doctrine. We have read the cases. We wrote the cases. So lawyers who just give back to us the words of our prior cases aren’t really telling us anything new and different. But lawyers who can tell us something about the practical effects in the world can have huge influence, particularly where the effects have been not so good. That’s a strong impetus to change the rule, to clarify the doctrine, to do something different.

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<sup>117</sup> See Hon. Paul R. Michel, *A Review of Recent Decisions of the United States Court of Appeals for the Federal Circuit*, 58 AM. U. L. REV. 699, 705 (2009).

So that's the kind of amicus brief I most like to see.

The second kind is if the amicus brief finds some analogous area of law, not argued by the parties, but a pretty good analogue that would make us think a little harder and maybe be open to some new ideas, that can also be very constructive and creative.

PROF. HANSEN: What about academic amicus briefs?

CHIEF JUDGE MICHEL: Hard to generalize. Some are very helpful and some are not very helpful. Some are very persuasive, some are not.

I think it benefits the court to hear from a diversity of viewpoints. I think to get a mix of briefs from industry people, litigators, academics, and others is a big plus. The more diverse the mix, the better.

QUESTION: I believe last year—I think it was a lecture or a speech; I don't remember—you encouraged lawyers to petition for en banc review.<sup>118</sup> You said that a lot of high-profile cases would be adjudicated better if they were being heard en banc.<sup>119</sup> And you just said that things are better, but I wonder if you have any statistics. Have you had more en banc petitions? Have you started hearing more cases en banc?

CHIEF JUDGE MICHEL: Let me correct the record here. I wasn't saying we need to have more petitions for en banc per year. We get about 150 a year. About half of them are patent cases. That's an ample number and it's a heavy workload. We really don't need or desire to have more. The quantity isn't the thing.

What I was trying to say is that if the petitions seeking en banc rehearing had higher quality, it would be a great help to the court. They often look like they were just done in a huge hurry, very superficial, mostly quoting back to us our own case law, and therefore not so helpful.

With regard to amicus briefs, our biggest need is not for more amici—thirty-six in *Bilski* and large numbers in any en banc case.

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<sup>118</sup> Eileen McDermott, *Make Better Use of Federal Circuit, Says Chief Judge*, MANAGING INTELL. PROP. (Sept. 25, 2008), <http://www.managingip.com/Article/2017893/Make-better-use-of-Federal-Circuit-says-Chief-Judge.html>.

<sup>119</sup> *See id.*

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Our biggest need for amicus briefs is not after the case has been taken for en banc rehearing, but on the threshold issue of whether we should take the case for rehearing. We often have close votes, as I mentioned before. If we had some good amicus input, maybe some of the cases that now fall short in the rehearing vote would get adequate votes and would be reheard, and there would be more clarification and correction of the law resulting from it.

So I'm a big proponent of amicus briefs, especially ones that are high-quality. But I would particularly like to see them on the threshold issue as opposed to just the thirty-seventh or thirty-eighth en banc rehearing.

PROF. HANSEN: Is that something that you correct by sending out a notice that you are considering en banc and you welcome any amicus briefs, or you could also ask the Solicitor General to participate on behalf of the government. Isn't this within your power?

CHIEF JUDGE MICHEL: We could solicit briefs. But the knowledgeable practitioners who follow the work of the court can see when an opinion comes out if it's a landmark kind of case and it's going to be a strong candidate for en banc. It seems to me those cases kind of identify themselves. The amicus committees of the six or seven key patent-related bar associations are monitoring these things.

I think they don't understand the need for the brief on the question of whether to go en banc. They are all assuming that the need for the brief is only after the case has gone en banc.

PROF. HANSEN: If you would put out an announcement that you would appreciate briefs on whether to have an en banc hearing, you might get some briefs.

CHIEF JUDGE MICHEL: I have been doing it in speeches, as the gentleman suggests. Maybe some consideration should be given to more formal methods.

MR. PEGRAM: Hugh, could I comment? As a past member of one of those amicus committees, the timeframe for commenting when there's a decision being made whether or not to go en banc is very short. The bar associations and those groups really don't have

time to, first, get the suggestion, then work up a recommendation to the association, obtain the approval which is usually required from a board of directors, and get a brief written. The timeframe is usually very close.

So the suggestion that was made—that if the court really wants amicus briefs on deciding this, if there is a way to say, “We’re seriously considering this, and we would like to hear from you”—that is helpful if you want it at that stage.

CHIEF JUDGE MICHEL: John, I met with the chairs of all the amicus committees of every organization I could identify, and they made a similar point. As a result of that, we changed our rules and we doubled the amount of time available to both parties and amici on this threshold issue of whether a case should be reheard en banc.<sup>120</sup> We encouraged them, where that time still wasn’t sufficient, to seek by motion still further time. I suggested that the court would have a self-interest in being lenient on granting those motions.

So we have worked on the problem of speed. I understand it’s a problem for organizations. We are doing everything we can to accommodate that. On their part, the organizations have all undertaken internal reforms to speed up the internal clearance process. So I think on both sides of the equation, substantial progress has been made. And it should help a lot.

PROF. HANSEN: Forget the organizations now. What about just the bar? Why aren’t you people [in the audience] submitting amicus briefs, especially firms that have a lot to do with prosecution? If that’s an issue, that might be something that you might want to send something in on.

CHIEF JUDGE MICHEL: What about academics? Why don’t academics file briefs?

PROF. HANSEN: Academics have thoughts and ideas which can be interesting and provocative, but in terms of the real world, they are at a disadvantage.

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<sup>120</sup> See Fed. Cir. Loc. R. 35.

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CHIEF JUDGE MICHEL: But an academic might be the perfect one to see an analogous area of law not previously brought to bear on a problem in patent law and to describe and analyze that analogue and draw the comparison.

PROF. HANSEN: I think that's true and that would be a good brief, but you rarely see that in academic briefs. It is not normally what you get. You get very ideological briefs. I'm not sure how helpful that is.

John Richards [in the audience], what have you been doing if you are not filing amicus briefs?

CHIEF JUDGE MICHEL: He has real clients.

MR. RICHARDS: Why do we not do it? It diverts resources from what we are actually doing. We probably don't spot the cases particularly early on. I think that's probably the main reason. There are times when I think, "Gee, I wish I'd written them something on that," but the time is gone by the time I get around to really sitting down and thinking about it. You need the odd weekend when you're not doing something else to sort of get to grips with some of these issues.

PROF. HANSEN: Well, this has been wonderful. Thank you all for your participation. Paul, this was fantastic. Thank you so much for tonight and this whole week at Fordham.

[Applause]

We're going to have a reception outside. I hope we can all go out there and continue this discussion.