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FEDERAL TRADE COMMISSION  
THE EVOLVING IP MARKETPLACE  
THE OPERATION OF IP MARKETS

Wednesday, March 18, 2009

9:00 a.m.

Federal Trade Commission  
FTC Conference Center  
601 New Jersey Avenue, N.W.  
Washington, D.C.

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FEDERAL TRADE COMMISSION

I N D E X

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## 1 P R O C E E D I N G S

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## 3 PANEL 1: UNIVERSITIES AND ENTREPRENEURS

## 4 MODERATORS:

5 SUZANNE MICHEL, FTC

6 ARMANDO IRIZARRY, FTC

## 7 PANELISTS:

8 RON D. KATZNELSON, Ph.D., President, Bi-Level

9 Technologies

10 JOE E. KIANI, Chief Executive Officer and Chairman of  
11 the Board of Directors, Masimo Corp.12 JON SODERSTROM, Ph.D., Managing Director, Office of  
13 Cooperative Research, Yale University14 THOMAS G. WOOLSTON, Chief Executive Officer,  
15 MercExchange, LLC

16

17 MS. MICHEL: Good morning. Welcome to the  
18 Federal Trade Commission. I'm Suzanne Michel, Assistant  
19 Director for Policy in the Bureau of Competition.20 Welcome to what I believe is our third in the series of  
21 FTC hearings on the Evolving IP Marketplace. Today  
22 we'll be looking at the way different companies,  
23 different firms and different industries participate in  
24 markets for intellectual property, for patents and for  
25 technology and the way that those markets promote the

1 patent systems to innovate.

2 We will be announcing today our next set of  
3 hearings to be held on April 17. There will be a press  
4 release going out. Please stay tuned for that. That  
5 should be also a very interesting day. We will have the  
6 CEOs of Ocean Tomo, Acacia and ThinkFire to talk about  
7 how patent markets operate.

8 I should also mention that tomorrow we will be back  
9 here again talking about economic perspectives on patent  
10 markets and how the notice function of patents affects  
11 patent markets and how it might be improved,  
12 whether it's working fine, those kinds of things.

13 Our first panel today is on entrepreneurs and  
14 universities, and I will turn it over to Armando  
15 Irizarry to introduce our panelists.

16 MR. IRIZARRY: Good morning. I'm Counsel for  
17 Intellectual Property here at the Commission. It's my  
18 pleasure to welcome you to these hearings. We're going  
19 to give brief biographical information about the  
20 panelists, and there's more complete information in the  
21 hearing's web site at [ftc.gov](http://ftc.gov).

1 inventions resulting from Yale's scientific research,  
2 including patent license agreements and information of  
3 new business ventures. He has participated in the  
4 formation of more than 25 new ventures, which  
5 collectively have raised over \$400 million in  
6 professional venture capital.

7 Dr. Soderstrom was a founding board member and  
8 Past President of the Association of Federal Technology  
9 Transfer Executives and the 2008 president of the  
10 Association of University Technology Managers.

11 The next panelist is Joe Kiani. Mr. Kiani is  
12 the CEO and Chairman of Masimo Corporation. Mr. Kiani  
13 founded Masimo in 1989 to improve the accuracy of non-  
14 invasive patient monitoring. Under Mr. Kiani's  
15 leadership, Masimo has grown from a garage start-up into  
16 a successful publicly traded medical technology company,  
17 employing over 1,700 people worldwide with annual sales  
18 growth nearly 25 fold in the last five years.

19 Masimo has technology, license and OEM  
20 agreements with leading patient monitoring manufacturers  
21 throughout the world, and it is the leader in the  
22 measure through motion and low profusion pulse oximetry  
23 technology markets. Mr. Kiani is an inventor on more  
24 than 50 patents. Currently, Mr. Kiani is Chairman of the  
25 Medical Devices Manufacturing Association.

1           Our next panelist is Thomas G. Woolston. Mr.  
2 Woolston is an inventor and an entrepreneur. He's a  
3 main inventor on nine U.S. patents. He's the founder  
4 and CEO of MercExchange, LLC. He's on the Technical  
5 Advisory Board of the George Washington University  
6 School of Electrical Engineering and Applied Sciences.  
7 He has organized companies, hired engineering talent and  
8 raised venture capital and company financing.

9           His companies have been both plaintiffs and  
10 defendants in intellectual property disputes. He has  
11 been a principal negotiator for intellectual property  
12 and other types of business agreements. He was formally  
13 with the United States Central Intelligence Agency and  
14 the United States Air Force, and he's an engineer and a  
15 lawyer.

16           Finally, on this panel we have Ron Katznelson.  
17 Mr. Katznelson is founder and President of Bi-Level  
18 Technologies in Encinitas, California. From 1990 to

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1 Working Group and a co-author of the DOCSIS downstream  
2 digital transmission specifications.

3 He is an advisor to high-technology firms, and a  
4 member of the San Diego Intellectual Property Law  
5 Association.

6 At this time, we're going to have the panelists  
7 make introductory remarks for about ten minutes each in  
8 which they will be able to speak about their experiences  
9 with the ability of patents to promote innovation and  
10 support the creation of new products, and we're going to  
11 begin with Dr. Soderstrom. They may sit or come to the  
12 podium.

13 DR. SODERSTROM: I think I'm going to sit.  
14 Thank you for the invitation to be here today and  
15 participate in this panel. Just as a point of  
16 reference, I'm here representing the Association of  
17 University Technology Managers, which is a membership  
18 organization of over 3,000 members around the world that  
19 are technology transfer officers from over  
20 literally hundreds of universities around the world.

21 As research universities, we are major consumers  
22 of intellectual property as well as generators. Our  
23 research budgets tend to, on average, create one  
24 patentable invention for every \$2 million of research  
25 that we've performed for the various agencies.

1           To put that in perspective for you, literally we  
2 filed -- thousand of patents last year were issued in  
3 the names of universities. My own university, Yale  
4 University, had over 200 new invention disclosures, and  
5 we filed approximately 170 patent applications. We  
6 had issued something on the order of 75 patents last year.  
7 We're not even in the top ten among universities, so  
8 just to put it in perspective, we are a major player in  
9 this market, but why do we do it?

10           In 1989 Congress passed a law called the  
11 Bayh-Dole Act which was to encourage universities to  
12 patent and to commercialize inventions growing out of  
13 their research. Prior to the passage of the Bayh-Dole  
14 Act, very few universities were actually performing  
15 anything in this marketplace -- my own university being  
16 no exception to that. With the passage of the Bayh-Dole  
17 Act, many of us have become much more active in our  
18 participation, and that has grown every year for the  
19 past 30.

20           What's it accomplished? Well, just to put this  
21 in perspective, in the past year, in the past year that  
22 we have data which is the year 2007, over 500 new  
23 companies were formed based on intellectual property  
24 that was produced by universities. Many of those formed  
25 were supported by professional venture capital, and of



1 those that have been formed since the passage of the  
2 Bayh-Dole Act, over 3,400 are still in operation here in  
3 the United States.

4 In the year 2007, approximately 700 new products  
5 were introduced on the marketplace, and in the past  
6 decade, over 5,000 new products have been introduced.  
7 For universities, obtaining patents is an important  
8 aspect of what we do, but it's not the end all and be  
9 all.

10 The most important thing that we can do with  
11 those pieces of intellectual property is to  
12 commercialize them, and the only way that can be done is  
13 in partnership with companies. We like to say the  
14 question for universities isn't whether we're  
15 going to license the intellectual property, the only  
16 question is to whom. Is it going to be an existing  
17 company like Masimo, which we've done business with in  
18 the past, or is it going to be a new company that we  
19 start?

20 And for any of those companies, the most  
21 important thing is how strong is the intellectual  
22 property that we can provide because after all, the  
23 importance for the company is how safe is their  
24 investment going to be? Are they going to be able to

1 most of the products, most of the inventions that we are  
2 coming up with are a long way from the marketplace and  
3 are going to require a substantial investment over a  
4 period of time, and that requires protection for the  
5 stockholders and other investors.

6 So, we are clearly in favor of a very strong  
7 patent system that both issues quality patents, i.e.,  
8 high validity but also has assurances that they are  
9 going to be withheld, sustained within the court system,  
10 and we will be able to protect them, protect our  
11 investments over time, and with that I will stop.

12 MS. MICHEL: All right. Thank you. Let's see.  
13 Let's get Joe's slide up there. Just hit page down.

14 MR. KIANI: Thank you so much, Suzanne. Thank  
15 you. Good morning. I'm very happy that the FTC is  
16 looking into intellectual property and its value.

17 While I'm honored to be here today to speak  
18 about Masimo and how intellectual property impacted  
19 Masimo. We're only one story. At Masimo we have a  
20 saying, "in God we trust, but for everything else we need  
21 data," so we hope that FTC will do just that, get the  
22 real data. I know a lot of anecdotal data is thrown  
23 out, but the real data - so that hopefully the right  
24 solutions are recommended.

25 Our focus must be to foster innovation and our

1 economy and further enhance the U.S. as the world leader  
2 in innovation. I am an electrical engineer. I have my  
3 bachelor's and master's in electrical engineering. I  
4 founded Masimo actually 20 years ago, and I've  
5 been the CEO of the company. I'm now also a Chairman of  
6 Medical Device Manufacturers Association representing  
7 over 200 medical technology companies from basically a  
8 few employees to a company like ours, which has about  
9 2,000 employees, but I also speak on behalf of the MDMA  
10 today and not just Masimo.

11 I started Masimo in my garage, and we invented a  
12 disruptive technology, and the reason I wanted this  
13 slide up, but it doesn't matter, I can show you here, I  
14 know sometimes the dialogue that's been had regarding  
15 intellectual property has been -- is it between pharma  
16 and technology companies? It isn't.

17 We are a technology company. I think as you can  
18 see up there, we make circuit boards that we  
19 provide to the industry as an OEM company. We make our  
20 own end-user product. In fact it has rotational screen  
21 since 1999. I know the iPhones do too these days.  
22 General systems, software and many sensors, so really  
23 this isn't about pharma versus tech. We are a tech  
24 company serving patients and doctors and hospitals.

25 Today we are a \$300 million a year revenue

1     company. We're a public company traded on NASDAQ, but  
2     the hill we had to climb to get here was not an easy  
3     one. We had many obstacles, and despite the  
4     frustrations that we had with the patent system, without  
5     it, we wouldn't be here today, and any changes that are  
6     going to be made to the patent system should be  
7     considered cautiously.

1 as there was low blood flow or patient motion, the  
2 products didn't work. Over 70 percent of the alarms  
3 were reported to be false alarms, and the industry had  
4 given up.

5 They thought that was just impossible to solve.  
6 They tried. They just had given up. There was an  
7 entrenched company with 80 percent market share making  
8 80 percent margins, despite the fact that pulse  
9 oximetry didn't work when you really needed them.  
10 That company had commercialization wired, but in our  
11 view they were no longer innovating.

12 As I stated earlier, the industry thought it was  
13 impossible to solve this problem. Yet, we did not think  
14 so. We thought we could solve it, and our innovation  
15 was the only thing we had. At 24, I didn't have  
16 commercialization experience. We didn't have any  
17 manufacturing. We didn't have any distribution, so the  
18 patent was very important because significant investment  
19 was necessary.

20 I initially got a second mortgage on my condominium  
21 but later we raised \$90 million through venture capitalists.  
22 Every time we got serious with a venture capitalist,  
23 they wanted to understand if our patents had teeth, if  
24 we could really protect our innovation, and fortunately  
25 we did. Fortunately they felt good about it, and our

1 innovation today has been responsible for saving many  
2 people's lives, many lives of babies.

3           The rate of eye damage in a neonatal intensive  
4 care unit used to be about 12 percent according to

1 found they had CO poisoning.

2 They went back to the hotel, and they found --  
3 motel and they found that there was a problem, and the  
4 head of Emergency Medical Services, Skip Kirkwood, said  
5 that over 50 people would have died had it not been for  
6 our technology and their intervention.

7 So, last but not least, we recently also have  
8 developed a way to measure hemoglobin non-invasively, and  
9 again we're getting, just in the clinical study stage  
10 alone, and I'm not going to bore with you more stories,  
11 but we've been able to save many lives.

12 Now, we could not have raised the money to  
13 accomplish what we have without our investors being  
14 confident that our patents would protect our innovation.  
15 In addition, we needed our patents to protect the  
16 investment from the entrenched company. In fact, after  
17 seeing demand for our product, the entrenched company  
18 decided to make their own.

19 Well, it was never quite as good as ours, but  
20 they did violate our patents and introduce a product  
21 that would get close to what we were doing. This  
22 company hoped that our patents wouldn't stand. They  
23 hoped that we couldn't afford patent litigation. They  
24 countersued us with ten patents. They sued our  
25 customers to stop our distribution. They bought a

1 company that had been out of business for 12 years,  
2 which I worked at when I was 23 years old, and tried to  
3 say they owned all of my inventions. They sent  
4 letters to our customers saying they were suing us and  
5 suggesting we would go out of business. Even under  
6 existing damages law, they seemed to believe that  
7 infringing was worth a try.

8 We fought over six years through discovery,  
9 summary judgment motion, *Markman* hearing, jury trial,  
10 post jury motions by the Judge and by the attorneys,  
11 the Judge, and finally the Federal Circuit Court of  
12 Appeals. We eventually prevailed. We won. We got an  
13 award for \$134 million and an injunction, and it all  
14 seems good now, but it was the hardest thing I had ever  
15 done.

16 It was a lot of hurdles and problems that we  
17 had, but the results are that patients today are being  
18 saved. Babies are going blind far less, and would be  
19 innovators feel more like they can innovate and succeed  
20 because of our technology and our victory in the courts.

21 One significant reason was our patent system had  
22 teeth. I don't think I would have been -- I certainly  
23 wouldn't have been here today if it didn't have teeth,  
24 but I'm not sure Masimo would be here today. We, like  
25 others, have been sued by the so-called trolls hoping to



1 shake us down for some money. Although devaluing  
2 patents will undoubtedly minimize or eliminate my cost  
3 of defending Masimo against unwarranted patent troll  
4 attacks, I believe the detrimental effects will  
5 overwhelm any possible benefit.

6 If the troll problem is to be addressed, it  
7 shouldn't be addressed with a hatchet but a delicate  
8 carving knife to address the specific problem. Why?  
9 Because I know that our innovation would have not seen  
10 the light of day, and patients would have been harmed by  
11 any further erosion of the patent rights. Any further  
12 erosion of patent rights for innovative companies will  
13 make it more difficult for the next Masimo, and it was  
14 already unbelievably difficult.

15 As Hernando DeSoto, a Nobel Prize nominee,  
16 explained, successful free enterprise requires an  
17 effective system of property ownership rights. For  
18 decades, the U.S. economy and innovation has benefitted in  
19 a face of a worldwide competition to well-defined  
20 property rights for innovation.

21 The U.S. patent system has protected and, thereby,  
22 encouraged an entire innovation economy, and while  
23 regrettably many factory jobs have moved out of the  
24 U.S., knowledge workers have thrived with improved  
25 standards of living. We should take the opportunity to

1 strengthen our protection for innovation that drives our  
2 economy rather than weaken it.

3 At a time when our economy has slowed down and  
4 healthcare costs continue to rise, we must do what we  
5 can to spur innovation and strengthen intellectual  
6 property ownership which encourages entrepreneurs and  
7 investors to take chances at improving our world.

8 Through this innovation based economy, we can  
9 among other positive things create knowledge-based  
10 jobs and improve and expand our healthcare to all who  
11 need it, making it more efficient and effective.

12 Thank you very much. I look forward to hearing  
13 the other panels members and the Q&A session. Thank  
14 you.

15 MS. MICHEL: Thank you, Joe. Tom?

16 MR. WOOLSTON: Hi, good morning. Thanks.

17 Thanks to the panel and the FTC for having me. That's a  
18 tough act to follow. Joe's very successful. I've beeno.dr,Te.0

1 patents and deciding we had to do something else because  
2 you couldn't protect market share without patent  
3 protection, without injunction protection.

4 We had a Final Determination by the highest  
5 court on validity. That didn't deter the PTO from  
6 continuing its reexamination, which has been going on  
7 for six years. I don't know if we were the first,  
8 probably the second party to a post

1 *MercExchange* case has already hit existing statutes and  
2 what I hope I can add. Very I think unintended ways  
3 they've already hit it. For example, 28 U.S.C. 1292 ©)  
4 (2) allows the district court to enter a final judgment  
5 but not a final accounting, so you can go up to the  
6 Court of Appeals without a final accounting.

7 Well, in light of the *eBay* decision, there's no  
8 relief at all because if a court denies a permanent  
9 injunction and doesn't do a final accounting, there's no  
10 information to make business decisions whether or not to  
11 exit the market or double down and try to enter the  
12 market so these are some of the things I like to add to  
13 the panel today.

14 MS. MICHEL: Thank you. And Ron? Feel free,  
15 would you like to go to the podium with your slides or  
16 we can move them for you.

17 DR. KATZNELSON: Is there a control there? I'll  
18 do it at the podium because there's a control there.

19 MS. MICHEL: Yes. Hit the down arrow.

20 DR. KATZNELSON: Let me check. Okay. This is  
21 going to be a little more data than the other speakers  
22 have put together, but partly because of the nature of  
23 the set of the questions that we received initially, as  
24 advance questions. So I'll make some comments on only  
25 one aspect of the topic today, and that is patenting



1 issue, but that's the context under which I'm going to  
2 show what has happened to us and what would have  
3 happened had first to file been in place.

4 Broadband Innovations started technology  
5 development back in the early '90s in a very promising  
6 technology. The core product was a broadband decoder  
7 device on the side of the house. We've developed this  
8 over the years, secured investments from AmeriTech, the  
9 Baby Bell, and later in '96 by Motorola.

10 Field trials and activities occurred in this  
11 time frame, and we obviously needed to develop other  
12 supporting technologies and so on. Each of those dots  
13 represents a patent application. We had numbers and  
14 some of them are shown with C-1, which means  
15 Continuation 1. Some shown with CIPs and so on.

16 The point is that during the course of this  
17 development, we found that the area that we got into,  
18 the consumer customer premise equipment wasn't really  
19 working for us. So, we moved to a head-end type  
20 technology, but again using the same core intellectual  
21 property through continuations. So the transition from  
22 that market was really accomplished through the process  
23 of continuation. The same disclosures that were used,  
24 we relied on back in 1992, we were still filing  
25 continuations in the late '90s. This slide shows the

1 case.

2 Now, we were able to secure strategic investors,  
3 Motorola and Scientific Atlanta, both of whom would  
4 were customers and strategic partners.

5 Now, what would have happened, if first to file  
6 was in place: We probably would have filed a whole  
7 bunch more applications as this shows. The reason  
8 for that is because as you develop some of this work,  
9 you're not sure which one is going to succeed. You're  
10 actually having to establish priority. You go race to  
11 the Patent Office. You file it, and this would have  
12 been the result.

13 And these are specific inventions that we had or  
14 some improvements that we had that we tested. Had there  
15 been a first to file, those that would  
16 have been filed at the Patent Office, and they're shown  
17 in different color here.

18 Now, Steve Perlman, a friend of mine who was  
19 the inventor of WebTV, has likened this process and  
20 actually showed his process of going through five years  
21 of development. Again he had 24 different ideas, tested  
22 them all, did refinements, got some key insights, did  
23 some rethinking. All of these boxes would have  
24 represented a patent application at the Patent Office  
25 had first to file be in place.

1           As a result, you can see that in the first to  
2           invent, only six or seven of them were actually filed  
3           but only the good ones, the successful ones, so that is  
4           the promise of first to file. It would be a process  
5           where a lot of applications would, in fact, be useless to  
6           their filers.

7           How do we know that? We see data. This is the  
8           result of an EPO analysis of the two types of  
9           applications that were filed in the European Patent  
10          Office. Applications that were filed with first  
11          priority, in other words, the first time they were ever  
12          filed in EPO, they're called EPO first filings, had  
13          basically been abandoned a lot more frequently than  
14          those that were filed without reliance of the filing  
15          date as a priority date, because they had prior  
16          priority.

17          You can see that first to file causes a lot of  
18          people just to run to the Patent Office, file something  
19          and see if it sticks. The result is that over 58  
20          percent were never even reaching the examination phase.  
21          A lot of people just gave up or they just didn't see the  
22          value of these patents for them because they actually  
23          saw a different way.

24          Perhaps a lot of them would have gotten some  
25          claims. The determination of patentability doesn't





1 filed until later than one or two years after the  
2 disclosure. First to file means all of this delay is  
3 going to generate a huge loss in priority value to U.S.  
4 inventors. This is a study from six different  
5 universities. I believe that much of what's happening  
6 here, the dynamics of looking at inventions, looking to  
7 see the experimentation of it, looking to see the  
8 funding of it, all of these factors affect the way we do  
9 business in America in terms of invention and  
10 development. First to file will upset this whole  
11 process.

12 Perhaps all the invention disclosures that don't  
13 get filed today will get filed. This is an example of  
14 the data showing that about 60 percent of all disclosure  
15 reaching university transfer, technology transfers  
16 actually get filed ultimately with priority application.  
17 Chances are with no time to decide, all of them will be  
18 filed or a great many of them would be.

19 So the first to file would change how we do or  
20 not do business in this country. A concern that an  
21 established strategic partner may misappropriate ideas  
22 disclosed under NDA and generated it's own parallel  
23 first to file priority process in competition would  
24 discourage a company like mine from disclosing and  
25 dealing with it. It's in the most crucial stage of our

1 development.

2           There will be chilling effects on joint  
3 developments. Responses to RFPs may not be  
4 substantially informative. Substantive investors or  
5 prospective licensee's due diligence would not really  
6 take much place. Marketing communications would be  
7 different.

8           When I put myself in a position about thinking  
9 of first to file, I came to the conclusion that the  
10 history that happened at BI, Broadband Innovations,  
11 would not have been possible. This is probably what  
12 would have likely to have happened.

13           You can see a lot of first to file applications

1 else.

2           So the conclusion is that first to file would be  
3 very harmful, and what you've seen in my company's  
4 development wouldn't have happened I believe. It will  
5 result in a flood of shallow and race to the patent  
6 office type patents. It would encourage paper  
7 inventions that are untested. It would generate more  
8 work for the PTO and more fodder for trolls.

9           Under the first to file, innovators would have  
10 to invest R&D in non-infringing solutions, designing  
11 around patents that would have never issued under the  
12 current system. Now, that's not an insignificant burden

1 to invent system struck a systematic legal balance  
2 between the written disclosure and the enablement  
3 requirements and patentee's priority entitlement. It's  
4 a very delicate process, a very elaborate one which you  
5 all know from case law.

6 We are experts in how to deal with these issues  
7 today. Over the years we developed expertise in  
8 managing R&D projects, disclosure, engineering  
9 notebooks, a process that will go out the window. We  
10 will take years to learn how to operate and how to  
11 innovate and how to collaborate under the first to file.

12 Also R&D that now has some incentives being  
13 internally in the U.S. Because you have priority, if  
14 you can demonstrate due diligence and reduction to  
15 practice in the U.S., you get the entitlement. If you  
16 do it abroad, you don't.

17 Well, the first to file would basically take  
18 away these incentives from multinational companies. R&D  
19 will move more away. From the point of view of  
20 priority, you would lose that, and remember, priority is  
21 required for a lot of companies, and remember there's  
22 about 10 percent of the applications that probably would  
23 have lost more than a year or two years of priority.

24 So first to file is touted as the next big  
25 thing, but is it worth it? Thank you.

1           MS. MICHEL: Thank you, Ron. Those were  
2 excellent presentations. We very much appreciate it. I  
3 think we can see we have a top notch group of panelists  
4 here, and I appreciate their time coming and sharing  
5 their stories with us.

6           You all spoke about the importance of patents in  
7 raising venture capital. Talk about the difficulty that  
8 you face before you have that patent and you're working  
9 on the technology and developing it and trying to pursue  
10 that patent, no venture capital at that point, what do  
11 you do? Joe?

12

13           MR. KIANI: Actually that's a really good  
14 question. Before we filed our first patent on our  
15 technology, we did not even go to venture capitalists,  
16 so we raised our money from friends and family because  
17 we knew that the investors wanted to see something  
18 tangible, and they wanted to analyze it.

19           MS. MICHEL: And as panelists would like to  
20 address the question, just turn up your table tent, and  
21 we will call on you and keep the conversation going, and  
22 feel free to comment on anything that comes up that you  
23 would like to share.

24           How did you approach the patent system or the  
25 patent application process at that point? This must

1 have been a new experience for you to be thinking about  
2 patents. It's a fairly expensive process. What kinds  
3 of difficulties did you face in even thinking about  
4 pursuing a patent?

5 MR. KIANI: Well, I guess I'll turn my card up.

6 MS. MICHEL: I know Joe's had direct experience  
7 on this.

8 MR. KIANI: Well, one of, of course, the  
9 negatives of filing patents is the time it takes for the  
10 inventors to try to disclose their area to a patent  
11 attorney and file it. Another one is the expense of  
12 filing patents. I can't even imagine under the  
13 post-grant opposition world that's being talked about  
14 today what we would have done because at the time we  
15 filed our first two patents, literally our burn rate  
16 with \$5,000 a month.

17 And filing the two patents cost us about  
18 \$20-25,000 and we didn't have to then worry about  
19 expenses for awhile. In the post-grant opposition  
20 world, I think my costs would have been another \$100,000  
21 to 200,000 to potentially try to just defend my patents  
22 before they could issue, which meant I wouldn't have  
23 been able to talk to investors about raising money even  
24 more, even longer before doing that.

25 MS. MICHEL: I see. Jon?





1     extraordinarily expensive, and it's a problem that we're  
2     all going to have to face somewhere down the stream,  
3     because the current models that we've all followed,  
4     particularly in the life sciences and biotech, for  
5     investing in these development of these inventions and  
6     new products is pretty broken at this moment.

7             Everybody I talk to would concur in that. So  
8     I think that we're going to have to come up with some  
9     innovative new strategies for how we're going to get  
10    this done because friends and families might have been  
11    the place you went, but last time I looked their bank  
12    accounts shrunk.

13            MS. MICHEL: All right. Once you have that  
14    first patent application on file, how do the  
15    uncertainties surrounding the outcome of the application  
16    process affect your ability to raise capital? Can you  
17    raise capital with just an application on file? Tom?

18            MR. WOOLSTON: We weren't. But the world  
19    definitely changes when a patent issues because all of a  
20    sudden the rights are defined. There's a claim scope,  
21    and it took me from 1995 to '98 to have the first patent  
22    issue, and I had a license and was off and running  
23    within four weeks of issuance, so it was like magic for  
24    us.

25            The difference between a pending patent really

1     meant very little other than you had something on file  
2     that protected it, and you had a little liberty to go  
3     out and discuss things without NDAs because you had a  
4     placeholder.

1 specification. We're also concerned about interference.  
2 One way to invoke inference is to copy one's claims. You  
3 automatically get interference in the Patent Office, so  
4 there was a challenge of how to do that. Not all  
5 claims were written or applied for initially too, so in  
6 some respects, the disclosure was the body that we were  
7 disclosing, not the claims.

8 MS. MICHEL: Okay. Jon?

9 DR. SODERSTROM: Just again a couple of quick  
10 observations. I think it varies by industry. In the  
11 area of life sciences in particular, we find that most  
12 everything that we license is in the form of a patent  
13 application, and that's after a lot of vetting, but the  
14 vetting is usually around the quality of the science.

15 So there's a lot of looking at hiring people to  
16 do due diligence that are essentially doing what the  
17 Patent Office does for a job, which is trying to see  
18 whether or not in their best opinion the claims are  
19 likely to issue as filed, and what the supporting data  
20 is. That's in life sciences.

21 Other fields, electronics information  
22 technology, *et cetera*, I find you don't even have a  
23 conversation without issued claims, and that's just as  
24 simple as that. So it mirrors exactly what the two  
25 gentleman, Tom and Ron, were saying in terms of the

1 difficulty of having the conversation, and part of the  
2 difficulty is you can't get a non-disclosure agreement in  
3 place.

4 MS. MICHEL: Okay. Does the backlog at the PTO  
5 then raise a concern in life sciences if you're able to  
6 have these conversations based on applications?

7 DR. SODERSTROM: The backlog is a concern no  
8 matter what because eventually you have to raise more  
9 money. While that's okay for the first round of  
10 investment, it's not going to be acceptable when you get  
11 into the institution, the big institutional investors,  
12 and so therefore they do want to see issued claims.  
13 They don't want to bet on it.

14 MS. MICHEL: What do you mean by big institution  
15 investors?

16 DR. SODERSTROM: I'm talking about the hedge  
17 funds, private equity funds, the large players that are  
18 managing billions of dollars as opposed to hundreds of  
19 millions.

20 DR. KATZNELSON: Trying to stay away from risk.

21 DR. SODERSTROM: Absolutely, absolutely.

22 MR. WOOLSTON: It doomed our company.

23 MS. MICHEL: The backlog at the PTO?

24 MR. WOOLSTON: Oh, yeah. Hindsight is 20/20 -  
25 but we look back now and our major competitors already

1 had a lot of momentum by 1998 by the time our patent was  
2 issued. It was filed in '95. Something I can kind of  
3 share with the panel is how compressed -- we were an  
4 internet technology -- just how compressed the business  
5 cycle was. It was probably a hundred year business  
6 cycle compressed into four years, right?

7           There's only four players left, and usually it  
8 takes a hundred years for industry to shake out like  
9 that. But, we were late, and we would have -- it would  
10 have taken billions and billions of dollars worth of

1 too. It's a diminishing asset. I mean, people are on  
2 to the next big thing and they're innovating around it  
3 so there's a finite life span of technology, period,  
4 patents or no patents.

5 MR. IRIZARRY: Tom, Jon mentioned in the area of  
6 life sciences, they get licenses on patent applications -  
7 you mentioned you have to wait to get the patent,  
8 and then within four weeks you have your first license  
9 or something like that.

10 MR. WOOLSTON: Right.

11 MR. IRIZARRY: What was the vetting process?  
12 Did you just show up and say we have a patent and they  
13 took your word for it or was there also due diligence  
14 work done and who did that due diligence in the field  
15 such as yours, in the electronic Internet space?

16 MR. WOOLSTON: Well, we were in a pretty crazy  
17 time that you could take companies public like pets.com  
18 on just a concept and raise billions of dollars. So we  
19 had an interference proceeding with Priceline.com, which  
20 is actually one of your questions -- "3Ramdot youdod8"h55555tlik

1 rank. That's when the dot.com lightning  
2 struck us, and we raised \$12 million and got the thing  
3 rolling.

1 MS. MICHEL: You yourself?

2 MR. KIANI: Me myself to go through -- those  
3 days they had the -- I can't remember what they called  
4 the films -- microfiche, thank you, microfiche to see  
5 all of the other related patents to what I was thinking  
6 of doing, and the reason that was important to us  
7 wasn't just because, "Well, are we going to file a patent  
8 or not?" I was trying to see if my invention was  
9 important enough to start my company or not.

10 So I spent a lot of time doing that, and before  
11 we filed our initial patents, we even had our patent  
12 attorneys, Knobbe Martens, to do a check for us to  
13 see, Well, is there anything like this, if I missed it.

14 So I did that early on. I don't do that  
15 anymore, but we, throughout many years, have watched and  
16 monitored companies as well as titles and interesting  
17 subjects to make sure we understand what's getting  
18 issued and what's out there.

19 MS. MICHEL: Okay. Ron and then Tom?

20 DR. KATZNELSON: To me the initial effort for  
21 the technology we developed was to try to find a  
22 different way to decode a whole bunch of signals  
23 simultaneously as opposed to a single channel at a time,  
24 decoding what people view, so it had to be backward  
25 compatible to existing encoding methods out there. So,



1 obviously there had to be a very careful analysis of the  
2 patents of these encoders and decoders, and to find a  
3 way that we do it totally differently and a way that  
4 does a whole bunch of channels instead of just one, but  
5 also in a way that doesn't read on the claim so the  
6 claims won't read on that.

7           That is the virtue of a design-around, because it  
8 actually produces a potentially different solution for a  
9 similar problem and encourages new inventions. We were  
10 fortunate to be so different and so differently  
11 approaching the problem that we felt pretty comfortable  
12 in that process, but going forward beyond that, there's  
13 always a challenge of trying to look at the intellectual  
14 property of others. What do you do, especially in the  
15 internet days when every engineer in a company has  
16 internet access and the PTO database is out for free. I  
17 mean, people would just look at these patents and google  
18 stuff out.

19           You cannot avoid, you cannot prevent your  
20 engineers from looking at these things, and so I've  
21 always had a concern with treble damages issues. Do I  
22 have a record of all my engineers having seen something,  
23 and I don't know about it? So we had a policy that  
24 essentially engineers don't look at claims. They only  
25 looked at disclosures, so they have to understand the

1 difference between the two. They're not attorneys.

2           So once you have a written policy and that's  
3 something I recommended, it may not be a solution but it  
4 would be some ways to insulate engineers from having an  
5 institutional ability to look at claims, and so when

1 IP copyrights were going to sort out, and it sorted out.  
2 Congratulations, Google, you did it, but that doesn't  
3 mean the copyright system needs to be thrown out.

4 It doesn't mean that authors don't need to get  
5 paid, and I feel the same way about the patent system.  
6 It's okay, you survived. There are a lot of broken  
7 companies around. To me the irony of some of this  
8 debate is people complain about the trolls and the  
9 aggregators, and I'm not even sure what some of these  
10 definitions are, but isn't part of this result from the  
11 low value of intellectual property that creates the  
12 opportunity to aggregate?

13 I mean, you wouldn't need to aggregate a strong  
14 right. You would aggregate weak rights, and so it's  
15 part of the unintended consequences you're having now.  
16 It's like, well, if patent rights are stronger, there  
17 would be more ability to raise capital, more ability for  
18 companies to start, to get a product in the market,  
19 maybe more M&A work but less patent suits. You only  
20 bring a patent suit when you're losing in the  
21 marketplace.

22 When you have a competitor enter the marketplace  
23 and you have price erosion or a knock-off, that's when  
24 you bring a patent suit. You don't bring a patent suit  
25 when you're Microsoft and you're dominating the

1 marketplace, and you have something much better than a  
2 patent. You have market power. That's a lot better  
3 than a patent, and so almost by definition a patent is  
4 enforced when you are on the down slope of the market  
5 share.

6 MR. KIANI: One of the comments I wanted to  
7 make, Suzanne, is I think a lot of people think about  
8 patents as forever. We understand -- when you think  
9 about it, obviously it's only 20 years, so I think going  
10 back to -- the backlog of the Patent Office, well it  
11 eats into that life you're supposed to enjoy your  
12 monopoly that's legally given to you. But I think what's  
13 more important is that going back to understanding other  
14 company's patents and respecting other company's  
15 patents.

16 We believe, first of all, that if you find a  
17 valid patent out there, either we don't practice it or  
18 we go try to buy it or license it. We don't think  
19 every bright idea has to be in our product if we can't  
20 do one of those two things, so one of, I think, the  
21 misnomers is it's so hard to understand what's out there  
22 and then you get stopped.

23 Well, sometimes maybe you do miss something. In  
24 fact when we sued our main competitor, they counter-sued  
25 us back with ten patents. We were able to defeat

1 nine out of those ten patents. The one patent that was  
2 still standing, we just said, You know what, we're just  
3 going to take it out of our product. I think what's  
4 important about that, again talking about some of the  
5 things that are being talked about today with the Patent  
6 Bill, they're talking about apportionment of damages.

7 And I hear the story that, Oh, well there's some  
8 small innovation part of a much bigger thing like let's  
9 say the font, some new font in Microsoft Office and  
10 somehow they're held hostage for this one little  
11 invention, a half a percent of a lot of money.

12 First of all, the current system allows you to  
13 take that out, and under the *Georgia Pacific* factors, you  
14 potentially only have to pay the damages on the  
15 amount of money it took you to get it out, which is  
16 maybe \$10,000 or \$50,000. The only reason I bring  
17 that up is because I think when we're looking at our  
18 current patent system, although it's not perfect, it  
19 is -- it is much better than anyplace else.

20 And while we look to improve it, what we  
21 shouldn't do is to follow a practice done by other  
22 countries that we know didn't get good results. This  
23 whole -- you mentioned the first to file versus first to  
24 invent. Well, Europe has done this, this whole  
25 post-grant opposition. Well, Europe has done that.

1 Well, they're not better off than us in innovating so I  
2 hope that helps.

3 MS. MICHEL: I would like to talk about the next  
4 stage of the process after you've come up with the  
5 initial invention and filed that first patent  
6 application, and you continue development and how  
7 important it is to continue that development before you  
8 can sell, license or commercialize your technology and  
9 the role of the IP in that stage of the process.

10 And I know, Ron, you were talking about the  
11 importance of continuations at that point. Could you  
12 spin that out for us a little bit?

13 DR. KATZNELSON: Well, there are several aspects  
14 of the importance of that. One is the evolving law of

1     you're focusing on the claims that you know you will

1           A lot of times they're different. They're  
2 broader. They're directed at different elements, and so  
3 to characterize this thing as rework does quite a bit of  
4 injustice to the process. So claim coverage is  
5 important and continuation is that step.

6           CIP is an additional element. We have in this  
7 country an incentive to disclose improvements which do  
8 not exist in other countries. You cannot file a CIP in  
9 Europe, for example, in a way that is similar to this  
10 country. Your own priority application may count  
11 against you as prior art where here it's not, but the  
12 point is that there's an element here that has worked  
13 for over a hundred years, and we sure hope it's not  
14 going to change.

15           MR. ADKINSON: Joe?

16           MR. KIANI: I wanted to add on the whole  
17 continuation, one of the thing's Ron said earlier is he  
18 teaches people to look at claims and not specification.  
19 We actually do the opposite because of the continuation.  
20 When we look at our own patents as well as others, we  
21 look at the specification, because we think continuation  
22 is a very important practice, and if you've specified  
23 it, you're able to eventually build defenses.

24           I liken it to if you've got a big land tract  
25 and you're going to build fences around your land, you



1 can't do it overnight. It takes years of investment to  
2 slowly build that fence and without the continuation  
3 practice, the value of filing patents is to me almost  
4 zero because there's no way the initial patent you filed  
5 with the claims you filed will end up protecting the  
6 invention you disclosed.

7 MS. MICHEL: Do you experience the downside of  
8 that though in the sense if you want to avoid someone  
9 else's patents and you see a specification out there,  
10 you don't know what claims might emerge from that patent  
11 later?

12 MR. KIANI: Well, if I could just answer that,  
13 we don't think of it as a downside. We actually think  
14 we have to do our homework. That's why I said initially  
15 we don't look at claims. We look at the specification,  
16 and unless we can see that specification part in a prior  
17 art, whether it's a product, whether it's a patent or  
18 some public disclosure, we stay away from it.

19 MR. WOOLSTON: We had like 12 restriction  
20 requirements on our prosecution. Do you know what that  
21 is?

22 MS. MICHEL: Yeah, yeah. Wow, that's a lot.

23 MR. WOOLSTON: And that forces you to file a  
24 division.

25 MS. MICHEL: A divisional?

1 DR. KATZNELSON: Divisional.

2 MR. WOOLSTON: I don't think you can address one  
3 without addressing the other. Abolish the practice, I  
4 mean just take it out of PTO's practice if they can  
5 enforce -- divisional. You can't have one without the  
6 other. You can't let the PTO force divisional  
7 requirements and then limit the number of continuations  
8 you can file because that's out of your hands.

9 MS. MICHEL: Okay. All right. Ron?

10 DR. KATZNELSON: I think as said earlier here,  
11 the issue of notice, whether the claims are necessary to  
12 give proper notice or whether the specification should  
13 suffice, in a lot of cases, as you said, the spec really  
14 tells you what could be claimed. In fact, so much so  
15 that the Patent Office has in the MPEP a requirement in  
16 the search by examiner to not just look at what the  
17 claims are, to look at what the spec -- what claims may  
18 be brought in view of the spec.

19 So there's an understanding, a mechanical  
20 understanding of the relationship between possible  
21 claims and a spec that apparently the PTO understands.  
22 When you file an accelerated examination with the PTO,  
23 your search report that you have to submit has that  
24 requirement that you not only look at the claims -- that  
25 the search that you make is not solely for the claims

1 you're making but also to match your disclosure as to  
2 what may be claimed.

3 If we know how to do that at the PTO, and we  
4 know how to do it when we file accelerated examination,  
5 I don't understand why we wouldn't be able to do what  
6 you're saying. It's true, that should be viably  
7 possible, so I think there's quite a bit of notice in  
8 the spec itself, and when I said we don't look at the  
9 claims, the engineers didn't look at the claims because  
10 of treble damages issue, willfulness issue. They look  
11 at the spec only for purposes of design.

12 MR. WOOLSTON: I think there is a statutory  
13 provision when 18 month from its filing date that  
14 you can relate damages back to the publication date if  
15 the claim eventually issues substantially the same.

16 MS. MICHEL: Okay. Thanks.

17 MR. IRIZARRY: Once a patent issues and you're a  
18 young entrepreneur, sole inventor, many times you enter  
19 into agreements with larger companies, your  
20 main competitors in the marketplace, all those -- what  
21 factors do you take into consideration under a decision  
22 to go at it alone and make your own company or to  
23 license your technology to others or whether to sue or  
24 sell the patent to others?

25 MR. WOOLSTON: Well, in our case because the



1 business model for some of the companies -- I'm looking now  
2 at Bi-level Technologies because to the extent that I  
3 ever thought to be efficient I would go out and  
4 license them under patents, now it's clear to me that I  
5 ought to be practicing in a way that the licenses are  
6 not under the patent but under some OEM arrangement, and  
7 there's some tangible element beyond the patent that's  
8 conveyed to the customer.

9           It means that I now have to look at a different  
10 structure of the business that requires additional  
11 resources to put together a different model, not just a  
12 licensing of the patents, but actually a development  
13 model, the more people, more investments.

14           So the eBay decision actually caused us to look  
15 at the way we do business in a longer path than we  
16 thought we would have been able to do primarily because  
17 we envision a low ability to interest licensees with  
18 just the patent. It's hard to negotiate an arrangement  
19 when you know that you're not going to be able to enjoin  
20 them if they infringe.

21           MS. MICHEL: Okay. Jon?

1 question is: Does the company exist or not? From a  
2 risk standpoint, you certainly would like to license it  
3 to an existing company, to the extent that they're  
4 willing to commit that they're actually going to develop  
5 it.

6           What that tells you, and this gets back to the  
7 question of weak versus strong patents, from a  
8 university standpoint we have to go after strong  
9 patents. Weak patents have no basis. Nobody is going  
10 to license them and you're not going to be able to raise  
11 venture capital if you're going to have to start a  
12 company.

13           So what we've done is, this essentially is very  
14 Darwinian in a sense, you have to get very creative:  
15 How strong a patent do you think you're going to  
16 develop, and then the question is: How long are you  
17 willing to develop it for before it's actually going to  
18 be licensed either to a new company for which you've gone

1     want to go for composition of matter.  If that's not  
2     possible you want to go for the next best thing, but

1 hour with an agreement, but then was willing to pay us  
2 money but was going to put our technology on the shelf,  
3 and then eventually all of them took the opportunity.  
4 They met with us earlier to begin working on breaking  
5 the formula as well, so unfortunately I don't have good  
6 advice for my friend here.

7 It's a tough world to go to these companies and  
8 try to work with them. You're actually better off to go  
9 with companies that probably aren't competing in the  
10 area you're trying to sell your patent to because they  
11 all try to get around your patents. They all try to do  
12 it without you.

13 MS. MICHEL: Okay. All right.

14 MR. IRIZARRY: Do you find that in the last few  
15 years there have been more awareness and probably new  
16 business models dealing with marketing of patents,  
17 whether aggregators or non-practicing entities -- how do  
18 you see the role of those new business models affecting  
19 or improving or enhancing or detracting from the start  
20 ups and small businesses in maximizing the value of your  
21 patents?

22 Ron? Go ahead. Tom?

23 MR. WOOLSTON: Well, I'm looking at university  
24 technology now to license and try to build and  
25 capitalize the business, and if it's my own money and



1 time, I'm a little more free with it, but when I take  
2 other people's money as an investor, I feel pretty  
3 committed to telling them what the company is going to  
4 do and why we're going to do it.

5 And I feel if you're building a business around  
6 a patented technology now and you're out approaching  
7 people to capitalize it, you're almost false advertising  
8 because the fact is under 35 U.S.C. 134, in the '99  
9 amendments, you have less rights to defend an issued  
10 patent then you do a pending patent.

11 Under the *Zurich* decision, which gave deference  
12 to the fact finder of the PTO, dovetailed with the  
13 amendments in '99 to 35 U.S.C. 134, Section 141 and Section  
14 145. In a patent reexamination, the office gives  
15 deference to their fact findings, and there can be  
16 legitimate disagreements on the fact findings, and that  
17 deference is enough to tip it the office's way to  
18 invalidate the patent. You can only go to the  
19 Court of Appeals, and they get deference in their fact  
20 finding. So, it has tipped validity toward the Patent  
21 Office that an inventor cannot fight for their  
22 invention. I have a problem with that because if  
23 you're out raising money on the strength of a patent  
24 saying, "Well, we can commercialize this and there's an  
25 expectation that if we get it to market, we can have an

1 exclusive right or some market exclusivity," that is part  
2 of the recipe for making the commitment of time, money  
3 and resources into it this. But the reality is if  
4 somebody else can beat you to market, get you in a  
5 reexamination, you have very limited rights to defend  
6 your patent at PTO.

7           They get deference. The only reason you're in  
8 reexamination is because a patent has become  
9 commercially important. People aren't doing it for the  
10 heck of it, so you have a commercially important  
11 invention. You're in the marketplace. Nine times out  
12 of ten you'll have very sophisticated opposing parties,  
13 and they can make very good fact-based arguments to the  
14 office.

15           The office can just adopt them. The office has  
16 deference to those decisions and you have no -- as a  
17 patent owner, you have no ability to rebut that with  
18 trial evidence or anything else. You're up on the  
19 administrative record, and chances are very likely that  
20 the CAFC is going to affirm due to the deference that  
21 the office has given on its fact finding.

1 slide here, the Constitutionally anomaly, the black hole  
2 because *ex parte*, the way we saw *ex parte*, *ex parte*  
3 swallows everything. It swallows *inter partes*. You can  
4 go through an *inter partes* and go back through an *ex*  
5 *parte*. You can go through first window and go into an  
6 *ex parte*. You can go through the Supreme Court and go  
7 into an *ex parte*.

8 MS. MICHEL: You mean that a challenger to a  
9 patent can, for instance, go through *inter partes*?

10 THE WITNESS: There's no estoppel in *ex parte* so  
11 you can go all the way through the *inter partes*, lose  
12 and then say, well, let's take all the arguments again,  
13 throw all the arguments again into *ex parte* and let the  
14 Patent Office do it all over again.

15 MS. MICHEL: So the challenger to the patent can  
16 lose in the *inter partes* and then put the patent into  
17 reexamination again through an *ex parte* proceeding?

18 MR. WOOLSTON: Absolutely.

19 MS. MICHEL: That's the concern?

20 DR. KATZNELSON: Anonymously.

21 MR. WOOLSTON: There's no collateral estoppel.  
22 There's no *res judicata*. There's no finality. It just  
23 goes forever and forever, and there's no time lines on  
24 the office to do anything so you see them taking six,  
25 seven years.

1           I don't know how you go out and raise money with  
2           a straight face on a technology that is covered by a  
3           U.S. patent when we put the time, money and energy into  
4           the commercializing this, that a faster better  
5           capitalized competitor isn't going to move into your  
6           market and throw you into re-exam, and then your whole  
7           premise for raising money that we had a U.S. patent that  
8           would give us some protection is -- I feel like I'm out  
9           false advertising what a U.S. patent is to people if  
10          you're out trying to capitalize a company.

11          MS. MICHEL: And when you are out trying to  
12          capitalize and you have your patent in re-exam, how does  
13          that affect your ability to raise capital?

14          DR. SODERSTROM: It shuts it down. There is no  
15          discussion at that point.

16          MS. MICHEL: Ron?

17          DR. KATZNELSON: I thought Armando was asking a  
18          question related to the packaging of patents and the  
19          market, almost the secondary market for patents and how  
20          important that is, and I want to address that. I think  
21          it's a very important function to be able to aggregate  
22          patents and to get them.

23          Part of the considerations investors make when  
24          they make an investment in a company like mine, okay,  
25          let's take a look at your patents, but you know a lot of

1 people fail and what are we going to be left with? What  
2 are the assets going to be looking like at the time?  
3 We're going to put all this money in here, there's risk.

4 They then look at what's their ability to  
5 actually monetize some of these patents so the  
6 valuation of a company often is done in two different  
7 tracks: One is your business model, what you're  
8 pushing, what you're saying you're going to do. The  
9 other is: Who is it good for? Who else might be  
10 interested in this patent should he fail? How much  
11 could we get out of this?

12 So the value of the assets, not through your own  
13 activity, that means secondary market valuation is an  
14 incredibly important gate for investors to make an  
15 investment in your company. So to me, if that secondary  
16 market disappears or is made essentially ineffective, it  
17 shuts down potential investors and primary effort  
18 patentee.

19 And even in an operating company, in my case the  
20 banks would look at -- we would like to have secured  
21 assets. I mean, sometimes even a loan's security  
22 by the assets are going to be chilled by the fact  
23 that these assets, in fact, will be known not to be worth  
24 a lot.

25 So, if you actually discourage the property

1 transfer and if you discourage secondary market in  
2 patents, you actually hurt primary markets of patents,  
3 and to me those are inseparable. I guess my point was  
4 there wouldn't be aggregators but for the fact the  
5 rights are weak right now.

6 MR. IRIZARRY: Joe?

7 MR. KIANI: I'm sorry.

8 DR. SODERSTROM: I will agree with Ron that in  
9 certain areas that's true. In life sciences, the  
10 decisions tend to be binary. It either works or it  
11 doesn't, and there is no secondary market because the  
12 technology either has been proven to work in human  
13 clinical trials or whatever the FDA requires or it  
14 doesn't.

15 So I would not make a broad generalization that  
16 secondary markets are great everywhere. The reason  
17 universities have a little bit of a problem with this is  
18 I think that we have to ask ourselves why are we  
19 patenting in the first place, and part of the reason  
20 that we're patenting is to try to draw forth the  
21 investment capital to take the technology into the  
22 marketplace.

23 If we're solely doing it so it can be rolled up  
24 by some non-practicing patent aggregator, the question  
25 we're really asking is: Well, why are you doing it?

1 Well, the only reason you could be doing it, it would  
2 seem to me is that you think you're going to generate  
3 revenue, and at that point aren't we just creating some  
4 sort of innovation tax?

5 And I don't really think that universities  
6 should be in that business so that's why we've taken a  
7 fairly strong stand against doing that. I'm not saying  
8 that there shouldn't be. I'm just saying that  
9 universities shouldn't participate.

10 MR. KIANI: The point I wanted to make is just  
11 because you have patents doesn't mean you're going to  
12 succeed. You have to succeed commercially  
13 and patents are helpful for an investor to  
14 decide to invest because they know you can use it as a  
15 great equalizer. The patents helped us get to a  
16 commercialization mode where we could eventually start  
17 competing properly.

18 I can tell you I know of numerous investors  
19 after raising \$90 million, I'm sorry, Ron, but they  
20 don't look at the secondary value of patents. I've seen  
21 companies invest \$50 million into them, \$100  
22 million into them, and when it doesn't work, the  
23 patents are worthless, and they're not looking at that.

24 They pick them up for 50 grand or a hundred  
25 grand. What's wrong with the aggregators of patents?

1 They take a failed company's patents, and then they  
2 start holding up companies that are still trying to make  
3 it with the threat of injunction. Fortunately, with  
4 eBay - I'm sorry, but fortunately with eBay that  
5 threat of injunction is gone and you can't be held up as  
6 badly as before but then there could be damages.

7 So I'm sorry, I disagree that there's some  
8 secondary value for a patent that investors look at.  
9 They don't.

10 MS. MICHEL: We have been talking about strong  
11 patents and weak patents. I would like to understand  
12 better what you mean by that in the sense of the desire  
13 to aggregate weak patents. Are those patents weak  
14 because they are of questionable validity? Are they  
15 weak because the ability to get an injunction is  
16 lessened, and what is driving that kind of aggregation?  
17 Tom, you've used that term and talked about aggregators.  
18 I just want to impact that a little bit.

19 MR. WOOLSTON: Well, look, small companies don't  
20 stifle innovation, right. Big companies stifle  
21 innovation because they've got market share and market  
22 power and they don't need to innovate to maintain their  
23 profit margins so it's always the challenger to the  
24 market leader that's going to be the innovator because  
25 it has to be better, faster and cheaper than an existing



1 property or why bother doing it, patent or no patent,  
2 right?

3 I had never filed for a patent or been involved  
4 in any patent in any way that I didn't look to build,  
5 and you've got to see some space in the marketplace to  
6 build, and if there isn't space in the marketplace, then  
7 you're not going to make it a business decision so

1 end goal is to make money, maybe you can't. But, if the  
2 end goal of patents was to help foster innovation,  
3 foster economic growth, then I think that type of a  
4 business model is actually hurting the patent system and  
5 innovation and what it was meant to do.

6 MS. MICHEL: We have a wealth of talent and  
7 knowledge here and could continue this conversation for  
8 a very long time. We're about out of time if any of the  
9 panelists have anything to say.

10 MR. WOOLSTON: Maybe you can fix it with a tax  
11 code. Maybe they treat owners with the different  
12 provisions in the tax code or something.

13 DR. SODERSTROM: Yeah, I hate to mix motives. I  
14 mean, I don't want to see the patent -- I'm a strong  
15 believer in the law of unintended consequences, and I  
16 think that messing around in the patent system which has  
17 withstood a lot of -- has proven itself over the years,  
18 I think we have to be extraordinarily cautious how we  
19 change this, and I would hate to see us jump into it  
20 simply because people don't like business models.

21 MR. WOOLSTON: But it's already been changed. I  
22 mean, where's our industrial base in this country?

23 DR. SODERSTROM: It's gone. It's being changed  
24 in lots of different ways both by the judicial system  
25 and the Congressional but I still urge caution no matter

1     what.

2             MS. MICHEL: With that, we will close this  
3 panel, and the FTC will continue to take comments and  
4 accept comments through May 15th, so if there's a point  
5 that we didn't get to, we would love to hear from you in  
6 writing.

7             Also staff here is always willing to talk if you  
8 have thoughts. Thanks very much and we'll come back  
9 in 15 minutes with a panel on the IT sector.

10            (Whereupon, there was a brief recess.)

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1 PANEL 2: THE IT AND ELECTRONICS INDUSTRIES.

2 MODERATORS:

3 SUZANNE MICHEL, FTC

4 BILL ADKINSON, FTC

5 PANELISTS:

6 SARAH T. HARRIS, Vice President and Chief Counsel

7 Intellectual Property, AOL LLC

8 NOREEN KRALL, Vice President & Chief IP Counsel, Intellectual

9 Property Law, Sun Microsystems, Inc.

10 ALEXANDER H. ROGERS, Senior Vice President and Legal

11 Counsel, Qualcomm, Inc.

12 MATTHEW M. SARBORARIA, Senior Patent Counsel, Oracle Corp.

13 RUSS SLIFER, Chief Patent Counsel, Micron Technology, Inc.

14 JOHN THORNE, Senior Vice President and Deputy General

15 Counsel, Verizon Communications, Inc.

16

17

18 MR. ADKINSON: We're going to start up again. I

19 want to thank you all for joining our second panel of

20 the day. We're going to hear from representatives of

21 the IT and electronics industries who are going to offer

22 a different set of perspectives on the operation of IP

23 and technology markets and whether those markets operate

24 efficiently or transparently and also what can be done

25 to improve them.

1           In particular they'll address licensing  
2 practices and the use of patents and uncertainty in the  
3 patent system's notice function.

4           We have a terrific panel of industry leaders  
5 whose distinguished bios are on the web site. I'll  
6 introduce them very briefly. I guess first I'll briefly  
7 introduce myself. I'm Bill Adkinson. I'm an attorney  
8 in the General Counsel's Office and working with Suzanne  
9 on this project.

10           Our panelists are Sarah Harris, who is Vice  
11 President and Chief Counsel for Intellectual Property  
12 for AOL. She is responsible for establishing AOL's  
13 intellectual property policies and strategies and  
14 managing AOL's intellectual property issues including  
15 those related to patent litigation, patent prosecution  
16 and copyrights, trademarks and domain names.

17           Prior to joining AOL Ms. Harris was the Chief  
18 Intellectual Property Counsel at Cooper Industries and  
19 she also held several different IP related roles at  
20 Hewlett-Packard and Compaq.

21           Noreen Krall is Vice President and the Chief IP  
22 Counsel for Intellectual Property Law for Sun Microsystems.  
23 Ms. Krall directs Sun's intellectual property law  
24 function and provides legal counsel regarding all facets  
25 of Sun's intellectual property assets, and she leads

1 Sun's management of intellectual property law policy  
2 issues. In particular, she is responsible for the  
3 management of Sun's patent and trademark portfolios and  
4 for managing all commercial and intellectual property  
5 litigation for Sun.

6 Then we have Alex Rogers who is the Senior Vice  
7 President and Legal Counsel for Qualcomm. He is the  
8 head of Qualcomm's litigation group and has  
9 managed intellectual property and commercial litigation  
10 matters for the company since joining in January 2001.  
11 Previously he was a partner with Gray, Cary, Ware &  
12 Friedenrich, now DLA Piper.

13 Then we also have Matt Sarboraria who is Senior  
14 Patent Counsel at Oracle. His responsibilities cover  
15 all areas of patent practice including patent  
16 litigation, licensing, procurement and patent related  
17 due diligence in mergers and acquisitions. His  
18 litigation experience includes cases involving database  
19 and application software, semiconductors, computer  
20 networking and telecommunications equipment.

21 We also have Russ Slifer who is the Chief Patent  
22 Counsel for Micron Technology which is based in Boise,  
23 Idaho. His responsibilities include managing the  
24 company's patent portfolio and advising company  
25 management regarding various intellectual property and

1 related patent issues. Prior to joining Micron, Mr.  
2 Slifer was in private practice in Minnesota specializing  
3 in IP matters.

4 Finally, we have John Thorne, who is Senior  
5 Vice President and Deputy General Counsel at Verizon  
6 Communications where he works on antitrust, intellectual  
7 property, privacy, merger review and strategic  
8 initiatives. He's also an adjunct faculty member at  
9 Columbia Law School and the Georgetown University Law  
10 Center.

11 Competition lawyers in the room will know that  
12 he's won three landmark antitrust cases in the Supreme  
13 Court over the last ten years: Bell Atlantic against  
14 Twombly, Verizon against Trinko, and NYNEX against  
15 Discon.

16 His intellectual property group was named one of  
17 the five best intellectual property practices in the  
18 world by Global Council Awards 2008. Mr. Thorne is  
19 co-author of principle academic treatises on  
20 telecommunications law and has published and spoken  
21 widely. I'm also reliably informed that he is the  
22 named inventor on one U.S. patent for disappearing  
23 e-mail.

24 MS. MICHEL: Thanks, Bill. I would like to  
25 start out with just a broad question to allow each of

1     our panelists to introduce their companies and the role  
2     that patents play in their companies. Sarah?

3             MS. HARRIS: Thank you for having me.  
4     I'm very honored to be a member of this panel with my  
5     distinguished colleagues.



1     Microsystems is an industry leading global networking  
2     company that develops, manufactures and commercializes  
3     computer hardware, microprocessor technology, software  
4     and related services. Sun has over \$13 billion in annual  
5     revenue across virtually every computer market  
6     including telecommunications, financial services,  
7     manufacturing, retail, government, healthcare and even  
8     consumer electronics.

9             Sun reinvests between 15 and 20 percent of its  
10     annual revenues back into R&D annually. This investment

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1 software used for storing data to middleware, software  
2 which provides the infrastructure for retrieving data  
3 from a database and interacting with application  
4 programs to the application programs that businesses use  
5 to run their day-to-day operations, things like human  
6 resources, payroll, accounting, supply chain management,  
7 customer relationship management and on and on.

8 We employ over 80,000 people worldwide. More  
9 than 20,000 of those employees are in research and  
10 development. We invest over \$2 billion annually in  
11 research and development, and like many companies in the  
12 technology industry, a substantial portion of the value  
13 of our company lies in the intellectual property that we  
14 generate, and so we rely on a mix of protections for our  
15 investment in that intellectual property.

16 Patents are certainly a part of that mix. We  
17 also rely heavily on trade secret protection as a  
18 software company for our proprietary source code and  
19 copyright protection as well. We file over 300 patent  
20 applications a year, and we have a portfolio of over  
21 2,000 active patents worldwide, so we have a very strong  
22 interest as a user of the patent system in a well  
23 functioning, well balanced patent system.

24 In recent years, we have also seen a dramatic  
25 uptick in patent litigation. The first 23 years of our

1 company from 1977, founding of the company in 1977 to  
2 the year 2000, we hadn't been involved in a single  
3 patent litigation.

4 Since then we've had over 20, and virtually all  
5 of those cases have been brought by non-practicing  
6 entities, so we do see a need for reform of the patent  
7 law to address some of those problems.

8 MS. MICHEL: Alex?

9 MR. ROGERS: Thank you very much for having me.  
10 I appreciate it, Suzanne and Bill. Thank you for that  
11 introduction.

12 Qualcomm is a semiconductor and software company,  
13 in part, and a licensing company in part, and we have  
14 other businesses. We are actually the largest  
15 semiconductor manufacturer for wireless in the world.  
16 We are the largest wireless semiconductor company in the  
17 world, but we actually consider ourselves to be a  
18 technology transfer company.

19 Qualcomm was founded by Irwin Jacobs in 1985,  
20 and his idea for the company was to look for new ideas  
21 to develop and essentially get out into the market, and  
22 it was funded -- Qualcomm originally was funded  
23 through patent licensing. The early Qualcomm patents,  
24 last I checked, have been noted as among the top  
25 ten most cited patents in the world, and so as a result

1 of our start as a business trying to get new technology  
2 into the market, the licensing part of our business has  
3 been ongoing and ultimately very successful.

4 We have over 160 licensees. We have  
5 approximately 7,000 issued patents, approximately 50,000  
6 issued patents and pending applications around the  
7 world. We spend over 20 percent of our budget on R&D.  
8 We've done that for years. That's an enormous amount of  
9 R&D spending. It's well over half of our licensing  
10 revenue.

11 As a product company and as a licensing company,  
12 we see both sides of the patent reform issue that's  
13 been going on, certainly both sides of the issue that  
14 have been presented in these hearings.

15 We see the patent system as not necessarily  
16 being perfect, but we don't see it in crisis, and we  
17 like some of the other commentators here are very  
18 concerned about unintended consequences, and we would  
19 like to make sure that different views be considered and  
20 any form of reform be taken very slowly.

21 MS. MICHEL: Okay. Thank you. Russ?

22 MR. SLIFER: Thank you to the Commission for  
23 inviting me to participate today. Micron Technology is  
24 a semiconductor manufacturing company. In the last 30  
25 years since the start of the company, we've gone from a



1 have seen a significant increase in patent license  
2 requests and patent litigation, particularly by non-  
3 practicing entities, that drain our economic and  
4 executive resources that could be used better for  
5 Micron's operations and R&D.

6 Thank you.

7 MS. MICHEL: Okay. John?

8 MR. THORNE: I would like to start, and I don't  
9 want to go on too long, but I could, appreciating the  
10 FTC's holding these hearings. It is a good time to have  
11 somebody with a consumer's point of view looking at the  
12 changes that have occurred since your 2003 report.

13 We have seen an explosion in the number of  
14 patents issued, an explosion in the number of patents  
15 being enforced, an explosion in the number of patents  
16 being sold on the secondary markets. I anticipate with  
17 the current financial crisis that companies, big  
18 companies, the Microns, the Suns, maybe not you  
19 particularly, are going to be selling even more of their  
20 patents because they can and so it's a way to raise  
21 money.

22 As was mentioned in the first panel, Congress is  
23 looking into some serious reforms. I think the more  
24 important reforms are likely to come through the courts,  
25 and you can see that, for example, as a by-product of

1 the work the FTC did in its 2003 report. I'll just give  
2 a couple examples.

3           When the Federal Trade Commission urged a more  
4 thoughtful application of the test for obviousness, that

1 in the country.

2 For enterprise services we bought MCI, a global  
3 enterprise provider. Consumer Reports doesn't rate them  
4 so you have to look at some of the enterprise  
5 publications to see that we are a very good enterprise  
6 provider. Telephony Magazine, for example, gave us their  
7 2008 innovation award for enterprise services.

8 The reason we're good at what we do is because  
9 we spent a lot of time building systems, and I actually  
10 looked at this again just to see how we fared. In the  
11 past five years if you add up the capital invested by  
12 large firms, Verizon spent more cap X than any other  
13 firm over the five year period. There were a couple  
14 years we didn't win for that year, but over the  
15 five-year period we were at about \$80 billion of cap X.  
16 GE was second at 76, ExxonMobil at a little less than  
17 76, Wal-Mart at 69, again IBM at about 25 billion  
18 investing.

19 But we're spending an awful lot of money on  
20 building high quality fiber and wireless networks, so  
21 patents are important for us for three reasons. One is  
22 that we have about 5,000 patent assets. That's about  
23 two-thirds issued and one-third pending patent  
24 applications.

25 Our rate of patenting, I was happy to hear on



1 the first panel, we're about three Yales a year, about  
2 three times the rate of Yale's patenting. We're  
3 beginning to enforce more than we did in the past the  
4 patents that we have.

5 Second, we're a defendant in an increasing  
6 number of troll patent cases. We have something like  
7 two dozen cases pending against us now, and I think all  
8 but one are filed by companies that don't practice their  
9 patents. They're just in the business of acquiring  
10 patents to bring litigation.

11 The third way that patents are important to us I  
12 found out recently that Verizon, being it's a large  
13 company, we have a very large number of employees, and  
14 they have large families, and we have a lot of retirees,  
15 and we're buying all their medicines so in the category  
16 of how much prescription medicine Verizon pays for, it's  
17 about a billion dollars a year, so the strength of the  
18 pharma patents is a thing of interest for us also so  
19 I'll stop there.

20 Thanks again though for hosting this.

21 MS. MICHEL: A lot of important and different  
22 perspectives there. Can any of the panelists comment on  
23 the different ways that you use patents within your  
24 company, to what extent you use the patent to prevent  
25 copying of an innovation within the company versus

1 accumulating patents for defensive purposes and are  
2 there any other mechanisms or any other uses of patents,  
3 how those two different uses affect your patent  
4 strategies?

5 Russ, I know that defensive patenting and  
6 portfolio cross-licensing is an important mechanism in  
7 the semiconductor industry. Could you describe that for  
8 us?

9 MR. SLIFER: I'll try to. A little history  
10 would probably help in that from Micron's perspective as  
11 a start-up company in basically the late '70s, early  
12 '80s, we were somewhat late to the game, if you will,  
13 in that technology. There was already an awful lot  
14 of innovation from Texas Instruments, IBM and others in  
15 a large patent portfolio, so we found ourselves in a  
16 position where to be able to participate in the  
17 industry, we had to pay license fees to those companies,  
18 and we did so.

19 As we were paying those fees and innovating our  
20 own technology, we sought our own patent portfolio as  
21 the technology advanced. We acquired a fairly  
22 substantial patent portfolio based on strong innovation,  
23 which allowed us to enter into cross-licensing agreements  
24 with other manufacturers.

25 MS. MICHEL: When you say acquired, did you mean

1 purchased or built up internally?

2 MR. SLIFER: No, we internally created.

3 MS. MICHEL: Okay.

4 MR. SLIFER: We did not purchase any assets. We  
5 built our own internal patent portfolio as a mechanism  
6 to allow us to enter into negotiations with some  
7 kind of bargaining power.

8 As the years went on and the portfolios grew,  
9 our portfolio grew, we were able to enter into cross-  
10 license agreements that were much more favorable to  
11 allow us to basically retain our earnings ourselves.

12 That was the start of our patent portfolio.  
13 There's been a lot of discussion and in the earlier  
14 report about patent flooding and creating large  
15 portfolios around some initial innovation. That  
16 continues to drive our reasons for filing a large number  
17 of patents.

18 With the creation of our new products and life  
19 cycle, we need to make sure that others aren't going to  
20 necessarily patent around where our next advance is  
21 going to be, so we try to continue and keep the  
22 portfolio large. Does that help?

23 MS. MICHEL: Very much, thank you.

24 Have other companies had similar experiences  
25 that you could speak to, the need to cross-license?

1 Alex?

2 MR. ROGERS: So should we do the card routine?

3 MS. MICHEL: Yes, please. Please turn up your  
4 table tent, and we'll call on you, and we are creating a  
5 transcript, by the way, so if you could speak into the  
6 microphone that will help our reporter quite a bit.  
7 Thank you.

8 MR. ROGERS: So let me just address both the  
9 inbound and the outbound licensing at Qualcomm and just  
10 a very brief snippet on history. Again Qualcomm when it  
11 started with about a half dozen people looking to simply  
12 do some innovation, they hit on an idea that was  
13 essentially rejected as a commercially feasible idea.  
14 So because they were left with an open field to do  
15 something that nobody else wanted to do or thought was  
16 possible and because they made it work, these engineers  
17 were able to establish essentially a pioneering patent  
18 portfolio.

19 Licensing was absolutely critical. Outbound  
20 licensing was critical in order to make the enterprise  
21 commercially successful. It would have simply failed  
22 because it was in an industry that had extremely large,  
23 established vertically integrated companies from chip-  
24 set to handset to other forms of equipment, and so we  
25 had to outbound license. We had to have these other



1 open source license, that created a community of patent  
2 rights associated with it, so the greater the access to  
3 our portfolio is actually by adopting that technology  
4 and following the rules of the open source license under  
5 which it was released under.

6           We've also used our portfolio to maintain our  
7 standardization of our platforms. If you look at the  
8 Java platform for the last decade -- through technology  
9 licensing and distribution agreements, maintaining  
10 compatibility with that platform, you get access to all  
11 of the background intellectual property that Sun has



1     infringe our patents. They added no value beyond the  
2     infringement. We won an injunction that was upheld in  
3     the Federal Circuit. We ended up -- because there were  
4     unique circumstances, it was a relatively weak player,  
5     we ended up trading the injunction for cash.

6             We have since filed a lawsuit against Cox  
7     Communications which is now pending in the Federal  
8     Circuit, and depending on how you count them there are  
9     three other lawsuits between Verizon and Charter  
10    Communications, and in both the Cox and Charter cases,  
11    we're seeking injunction to stop the copying.

12            MS. MICHEL: John mentioned an explosion in



1 continues to drive businesses to look for new ways to  
2 raise revenue or even as businesses go bankrupt and  
3 their assets are divested, that patent and IP portfolios  
4 will continue to become available.

5 MS. MICHEL: You mentioned portfolios. Are  
6 these patents being sold as portfolios or sold  
7 individually?

8 MR. SLIFER: Well, I usually don't get  
9 notification of an individual patent. These tend to be  
10 grouped. Now, whether they're a company's entire portfolio  
11 or a subset, it varies.

12 MS. MICHEL: Is it necessary -- are they being  
13 offered for you to buy the whole portfolio at once or is  
14 it possible to buy individual patents within the group that  
15 you're seeing?

16 MR. SLIFER: I probably can't answer that  
17 because I've never responded back to -- we don't --  
18 unfortunately right now we don't have any cash to take

1 give you the numbers. In 2007 we saw almost exactly  
2 10,000 patents for sale, sometimes single patents,  
3 sometimes collections in a small portfolio. 10,000  
4 patents for sale that were in areas that were

1           I think that's going to increase as companies  
2 now frantically sell everything that they can to raise  
3 cash.

4           MS. MICHEL: How is that different than your  
5 experiences five years ago in terms of both the number  
6 of patents for sale and the use of brokers?

7           MR. THORNE: I wasn't involved then.

8           MS. MICHEL: Or if anyone wants to comment.

9           MR. THORNE: I don't think it was anything like  
10 that in 2003.

11          MS. MICHEL: Noreen?

12          MS. KRALL: Yes. So there are a tremendous  
13 amount of assets for sale on the secondary market.  
14 We've been involved in watching this over the last four  
15 years. I would say our resources and time spent  
16 looking at these portfolios that are coming across has  
17 probably doubled. It's taken twice as long and twice as  
18 many patents are coming across.

19           It's a regular part of the patent portfolio  
20 manager function in my organization to actually look at  
21 those portfolios as they come across. Interestingly  
22 enough, some are truly just pure patent sales in  
23 the technology industry from folks that have large  
24 portfolios.

25           Some are small inventors. Some are individual

1 patents. Some are large portfolios. Some are truly  
2 couched as an offer to sale, and others are vague barely  
3 disguised assertions, if you don't buy these patents  
4 somebody else will who will sue you or they'll shop the  
5 patents to some other companies with claim charts  
6 against your products.

7 And I'll get the same set of patents to look at  
8 with claim charts against my competitor's products, so  
9 it seems to be a new approach to patent assertions that  
10 don't necessarily or attempt to get below the requisite  
11 threshold for you to be able to file a DJ against  
12 potentially the patent seller, so it's certainly a  
13 challenge.

14 Sun has been involved since the earliest  
15 inception of Allied Security Trust, which is a  
16 consortium of a couple of companies that have gotten  
17 together to try and use their collective resources to  
18 purchase patents and mitigate the risk of those patents  
19 falling into the hands of entities that would be more  
20 let's just say litigious with those patents, and that's  
21 been successful for us as a mechanism for addressing  
22 this volume that we're seeing in the market.

23 MS. MICHEL: Matt and anyone else who would like  
24 to comment on how this has changed over the past few  
25 years? Noreen, do you have a sense of how this has

1 grown? Is it a problem with the secondary markets?

2 MS. KRALL: I don't know the exact numbers but  
3 the volume is tremendous. It really is.

4 MS. MICHEL: Okay. Matt?

5 MR. SARBORARIA: I don't have numbers either,  
6 but in the software space, we've seen a tremendous  
7 increase in offers to sell patents. In contrast to  
8 Russ's comments, most of the offers we see are for  
9 individual patents as opposed to large portfolios.  
10 We've seen this increase sort of track the development  
11 or the increase in the number of different entities in  
12 the market that were addressed at some length in the  
13 Commission's December hearings, the increase in the  
14 brokers, agents, auctions, what I think of as the push  
15 end of the market, entities or individuals coming to us  
16 with patents that they believe would be of interest to  
17 us.

18 And in some ways this has been a positive  
19 development in the sense that some of these  
20 organizations do some fairly good diligence at the front  
21 end and can bring some high quality assets to the table.  
22 I remember when I started at Oracle some years ago, we  
23 used to receive a lot of letters from individual  
24 inventors, patent owners, some of them offering patents  
25 that had no relationship whatsoever to our technology or

1 our business, offering hardware patents when we're  
2 purely a software company for example.

3 We've seen that. We've seen a decrease in those  
4 types of offers and an increase in what I would  
5 characterize as more sophisticated offers.

6 MS. MICHEL: Alex?

7 MR. ROGERS: So our experience has been similar.  
8 We've seen the market for patents being sold increase.  
9 Certainly we've had more visibility into it over the  
10 last few years, and we've had -- like Noreen -- we've had  
11 to organize internally in order to be able to handle  
12 getting some sort of structure to be able to understand  
13 how the market is working and what is out there  
14 essentially and being able to evaluate what's being  
15 presented to us.

16 I don't have the numbers that John has. I can  
17 say anecdotally it is interesting that a number of  
18 portfolios that are being presented to us recently  
19 include patents that were sold previously, so we're  
20 looking at patents that may have been bought and sold  
21 back in the late '90s being presented yet again.

22 And so I really don't have the numbers to tell  
23 you how much it has increased. There certainly wasn't a  
24 market previously because we were seeing patents that  
25 have already been sold.

1 MS. MICHEL: Okay. Sarah?

2 MS. HARRIS: I'll echo the same comments. We've  
3 seen a really significant increase in the past 12 months of  
4 being approached by brokers, and also like Russ we're  
5 not in the business of buying patents. We do look at  
6 everything, but it's actually becoming somewhat  
7 burdensome now because we see so many that we also talk  
8 to the brokers, and what kind of anecdotal intelligence  
9 that we're receiving now is that the actual purchasing  
10 market is really drying up.

11 We've heard from two different brokers that a  
12 portfolio today would probably draw the sales price  
13 about half of what it would have been last year, and  
14 people just aren't biting on them. The patent  
15 aggregators aren't buying as many. They're being much  
16 more selective, so it's kind of a capitalistic market in  
17 the patent space.

18 MS. MICHEL: John?

19 MR. THORNE: I wanted to follow-up on something  
20 that Alex said because I have a Qualcomm example. It's  
21 very hard with the volume of patents to make a realistic  
22 decision, Is this something you need or not.

23 MS. MICHEL: Yes.

24 MR. THORNE: Because even a quick analysis on a  
25 single patent, does a complex business potentially

1 infringe this and is this business -- is the patent  
2 valid, was it properly enforced, will run into at least  
3 the small number of thousands of dollars per patent. If  
4 you're looking at 10,000 over a year, it would be an  
5 astronomical thing to actually do a good job of  
6 evaluating things.

7           Here is my Qualcomm story because we were  
8 involved as a worried bystander. There was a patent  
9 portfolio for sale four or five or six years ago that  
10 was presented to Qualcomm, I understand. It was a  
11 small number, 100, 150 patents for sale. Qualcomm gave  
12 it a pass. Broadcom bought it, went to the ITC, which  
13 hasn't learned the wisdom of the FTC's recommendations  
14 from 2003. They disrespect eBay. Went to the ITC and  
15 Broadcom said one of the patents they had purchased  
16 was -- actually several of the patents were infringed by  
17 Qualcomm's chips.

18           The ITC should block products coming into  
19 America that included those chips, and this would have  
20 been the now current generation of wireless phones.  
21 Verizon, AT&T, all the other suppliers of wireless  
22 service would have had no devices to give their  
23 customers had this succeeded but it was an instance  
24 where a very intelligent IP group that Alex runs was  
25 given the chance to buy the patents and made a



1 reasonable decision, no, these probably aren't important.  
2 The ITC later found otherwise, and was ready to  
3 issue the strictest of remedies which would have  
4 devastated an awful lot of commerce.

5 MS. MICHEL: Alex?

6 MR. ROGERS: John's correct, that portfolio  
7 actually was presented to us, and we did pass on it, and  
8 we did think that the patents weren't strong enough to  
9 purchase or be interested in. We obviously have  
10 views on the merits of that still, but that's correct,  
11 and, in part, because of that lesson, we've actually  
12 become determined to be more educated on this market  
13 that's out there, and we are becoming more educated on  
14 this market that's out there.

15 MS. MICHEL: What do you need to do to become  
16 more educated? What .0000 cm0Es00 0.00000 1.00000 0.0000 0.0000

1 be asserted against us. The analysis that's necessary  
2 when you look at one patent is -- anybody can do it. If  
3 somebody gave me 12 patents, we have a very talented  
4 group of people that would look at it and could  
5 determine if we do or do not worry about them -- there's no  
6 risk of infringement or the prior art search shows that  
7 the patents should be found invalid given the way the  
8 law works on that. But the expense of doing that is  
9 pretty large.

10 I'm told by my outside suppliers of this that no  
11 one will do a prior art search on a patent for less than  
12 \$1000. A worldwide bare bones patent  
13 search is \$6,000 - 7,000. A more realistic extensive  
14 search, which looks not only at other patents but other  
15 publications, is in the neighborhood of \$15,000.

16 You do a lot more than that in real litigation,  
17 but if you tried to do a serious look at the validity of  
18 every patent that came in and you were looking at 10 to  
19 20,000 patents potentially relevant to your business a  
20 year -- that's more than my budget.

1 technology areas you have here, the number of  
2 technologies and patents that would affect our products  
3 are in the thousands. I mean, everything from material  
4 science to chemistry, electrical engineering, process  
5 operations, all of those, so we have a large patent  
6 portfolio to provide us the defensive positions we need.

7 What we would be looking for when we look at the  
8 portfolios are to see if there are assets in there that  
9 would be critical to what we're doing and what might  
10 fall into the wrong hands as you say to get it off the  
11 street. To be honest, I have not seen that in the  
12 portfolios being offered to me, that we've felt that  
13 anything has risen to that level, so we haven't engaged  
14 in that discussion with the brokers that you're  
15 inquiring about earlier, can you split it up or buy one  
16 or two patents out of it.

17 MS. MICHEL: I see. Noreen?

18 MS. KRALL: So, you asked a couple questions  
19 about how to get educated and what is the purpose for  
20 purchasing. Just simply on the getting educated side,  
21 if you do feel that there's a market out there that  
22 you're missing that you want to tap into, I would  
23 recommend connecting with some kind of a seller's broker  
cdH 23 recommend connecting with some kind of a seller's broker

1 across my desk.

2 Be careful if you open that door because a flood  
3 of proposals could be coming in as we've certainly  
4 found. It becomes kind of a self generating part of  
5 your business. To the extent we look at the patents it  
6 really is from a defensive purpose. We don't even get  
7 to the point of looking at invalidity. If there's a  
8 reasonable claim that could be made from an infringement  
9 standpoint we usually look and say, okay, now is this  
10 reasonably priced and should I just purchase it, unless  
11 there's some very clear prior art that you already know  
12 of that might have been generated within your own  
13 company.

14 But beyond those, it doesn't make sense to do  
15 prior art searches on all the patents that come across.  
16 Then I would say the challenges that you face, you  
17 face when you enter this market is that there's really  
18 no visibility into what these transactions should really  
19 go for. There's no real comparable market data.

20 You can't do a comparable analysis like  
21 when you're selling your home about what other  
22 prices are in your neighborhood. You're relying a lot  
23 on the information of the seller or the seller's agent,  
24 and then of course your own risk factors weigh in, what  
25 would -- potential revenue that could be tapped if this

1 patent was asserted against me in litigation.

2 The other challenge that you face is the fact  
3 that there's no consistency in the way these patents are  
4 marketed. Some are very robustly packaged where you can  
5 see very clearly where the relevance of these patents  
6 are, and others are just thrown over the wall and you  
7 kind of struggle and say, "All right, what exactly do or  
8 could these apply to?" So those are some of the  
9 challenges you would face in getting involved in this  
10 marketplace.

11 MS. MICHEL: Do you react differently depending  
12 on how the offer for sale is packaged, the patent that  
13 comes with some explanation of why it's relevant versus  
14 the patent that's just thrown over the wall?

15 MS. KRALL: Oh, sure. More information is  
16 always better. It certainly guides your analysis.

17 MS. MICHEL: Alex?

18 MR. ROGERS: Just to clarify, I want to make  
19 sure that I think we're all distinguishing the situation  
20 where, for example, you're looking at an acquisition of  
21 a start-up, for example, that has IP that's valuable and

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MS. M

1     there and portfolios that are out there for sale, I  
2     agree with John. You can't throw everything at every  
3     patent. It's too much. It's unreasonable, so you have  
4     to develop some sort of process that's a funneling  
5     system where you're skimming as a first look -- probably  
6     most of what somebody might present to you, and then you  
7     have opportunities to develop groups internal or  
8     external that have different types of expertise,  
9     engineers that have different types of expertise that  
10    are complimentary, and they can help triage to the  
11    extent you want to anything that's presented your way.

12           I agree with Noreen. There are certain instances  
13    where these are being presented as "Are you interested in  
14    these assets?" There are other instances where  
15    there's a subtle hint that you might want to take a hard  
16    look at these. But if you sit down and think about it,

- 1 point, so we pass up just most of everything because
- 2 they're not relevant.

1 here to the FTC to talk about it, but I guess I'm  
2 repeating myself. I'll do it one more time and I don't  
3 know how to better say it but it is absolutely critical.

4 MS. MICHEL: Okay. Matt?

5 MR. SARBORARIA: I agree, I'll just echo what  
6 Alex just said. We have a very active acquisition  
7 program. There's a lot of consolidation going on now in  
8 the software space so we look very carefully at  
9 technology of start-up companies. There's a lot of good  
10 technology out there that's complimentary to our  
11 existing product offerings. As a part of that due  
12 diligence and looking at those companies, we  
13 scrutinize their patents, their pending applications  
14 very, very carefully. It's absolutely critical to the  
15 transaction.

16 Of course we also look at the potential  
17 acquisition from a defensive perspective, what type of  
18 liabilities are we potentially bringing on in the IP  
19 area in terms of their own product offerings or their  
20 own customer base, but their patent -- their patent  
21 position is very important.

22 MS. MICHEL: Russ?

23 MR. SLIFER: I'll give a slightly different  
24 perspective. Micron licenses, and I like to think of  
25 it more as technology or looking at a start-up company



1 or individual or university work, something that will  
2 provide a competitive advantage to Micron, whether  
3 that's faster time to market, whether it's complimentary  
4 R&D in an area that we haven't staffed up in yet. The

1 area we're talking about involves bringing in  
2 engineering talent, product development activities that  
3 we think are product development activities that we  
4 think we would be able to incubate and bring to market,  
5 and the IP protection is critical to protecting that  
6 development.

7 So let me just throw out one example. We  
8 acquired a company called SnapTrack some time ago that  
9 had very good, very advanced GPS technology,  
10 assisted GPS technology, for cellular uses and we  
11 brought that company in. They had terrific engineering  
12 talent, great patent position and basically every one of  
13 our chips that sold in the U.S. has their GPS  
14 tracking technology in it.

15 MS. MICHEL: Noreen?

16 MS. KRALL: Yes, thank you. So we're also very  
o07T1111a0b0theipothe anqtheitidatprocess as well. The  
18 primary drivers are from either filling a business need  
19 or adding complimentary technology to our products, and  
20 then secondarily we'll look at their IP and their patent  
21 position specifically.

22 That varies by start-up. Some are very good and  
23 very diligent early on in filing their patents. Others  
24 get to the point in their development when they have  
25 something that's really ready to be offered. They might



1 technology, things like that. So it's not necessarily  
2 to just block out competitors.

3 MS. MICHEL: Okay. John?

4 MR. THORNE: I was going to make almost the same  
5 point. I think most of your panelists have their  
6 mergers reviewed over at the Justice Department rather  
7 than here, so I think I'm safe talking about there a  
8 little bit.

9 MS. MICHEL: I think that's right.

10 MR. THORNE: I know increasingly the Department  
11 of Justice has given scrutiny to the patent positions of  
12 acquired firms to see if under independent income you  
13 don't necessarily get a monopoly in a relevant product  
14 market with a patent, but you might have a monopoly on  
15 one of the ways of doing a process.

16 And if you're buying a competitor who has the  
17 monopoly on the other way of doing it, you've converged  
18 the only two ways into a single firm, and so I know that  
19 the Justice Department now is spending a lot of time  
20 looking at, for example, the mergers of the panelists  
21 here to see if the combination of patents creates a  
22 competition problem that would potentially be a problem  
23 for the merger.

24 MS. MICHEL: All right.

25 MR. ADKINSON: Do you want to go to

1 transparency?

2 MS. MICHEL: Transparency, that's right where we  
3 were going. Noreen raised transparency. Noreen  
4 mentioned again in the market for secondary patents and  
5 moving away now from this technology transfer, we have  
6 heard the comment that this is not a transparent market.  
7 You don't know what other people are paying and that  
8 makes it difficult to price and value the patents being  
9 offered.

10 Do others have comments on that problem? Do you  
11 experience that as an issue? And do you have any  
12 suggestions on what might be done about it? Would you  
13 like a more transparent market in which, for instance,  
14 the price of the licensing deal had to be reported? No  
15 problems with transparency? John.

16 MR. THORNE: I read the reprint of an article  
17 by Nathan Myhrvold and Mark Lemley on the idea of  
18 transparency. There's a surface appeal to the idea  
19 that when you sell a house, that the price  
20 that the house is sold for is published. That's  
21 interesting but there are so many other factors that go  
22 into a license that make them hard to compare to one  
23 another.

24 When I was a baby lawyer, I represented the Chicago  
25 Board of Trade in a futures contract for December



1 do want to know what their licensing practice has been  
2 with respect to that patent, and pre-litigation, almost  
3 impossible to get, so it kind of thwarts any ability to  
4 actually settle before litigation.

5 In litigation you can typically get it. It just  
6 takes a very long time, and there's a lot of expense  
7 involved in getting to that point, so theoretically, it  
8 would be nice, but then if you overlay that with what  
9 John was saying, every deal is different, and I assume  
10 everybody has dealt with most favored nations clauses in  
11 their licenses.

12 If you've ever had to dispute one of those, you  
13 realize that no deal is ever the same and there's always  
14 an out on that provision, so I don't know how we could  
15 get there.

1 are not transparent, and rightfully so. I mean, all of  
2 these competing entities have an interest in  
3 confidentiality in their commercial agreements and  
4 whether that deals with patents or some other form of  
5 commercial agreement, there is a significant interest in  
6 confidentiality that has to be respected even in this  
7 area.

8 So in some respects there's tremendous  
9 transparency. In other respects, maybe not, so but I  
10 don't know if that's necessarily a problem.

11 MS. MICHEL: When you see a patent on a  
12 secondary market, how easy is it to tell or are you ever  
13 not sure who actually owns that patent? Who's the true  
14 party in interest or is there situations in which the  
15 patent may be held by a Shell company? Russ?

16 MR. SLIFER: Well, I think the answer is  
17 yes, it is difficult to ascertain at times.  
18 I'm not so sure though that it's the patents that  
19 are being offered on a secondary market necessarily.  
20 It's the patents that aren't currently being offered or  
21 asserted but are being held back or held by a non  
22 practicing entity.

23 Even some practicing entities don't necessarily  
24 even want the extent of their patent portfolio to be  
25 known so they may not file some assignments for patents.



1 It happens for different reasons, but I have seen  
2 some evidence that different shell corporations are set  
3 up and portions of portfolios are split between them, so  
4 if you license this portfolio from this company, you  
5 don't necessarily know that you're also exposed to a  
6 complimentary portion of that portfolio held by somebody  
7 else or if you can't tell who's holding it.

8 I think there is some intentional hiding of  
9 who owns -- who's the true party in interest.

10 MS. MICHEL: And Sarah?

11 MS. HARRIS: The other aspect that's a  
12 little bit problematic is if, as a developing company -  
13 a company doing development -- you're trying to be  
14 vigilant about the patent landscape. Say you want to  
15 look at a particular industry or possible competitors in  
16 that industry when people aren't actually filing in  
17 their names, it's very difficult to do, and I don't  
18 really quite understand. I've heard there are different  
19 reasons for doing it but they don't seem to further  
20 transparency.

21 MS. MICHEL: Okay.

22 MR. ADKINSON: That brings up a broader  
23 question. We've been looking at the question of how  
24 difficult it can be just to evaluate a group of patents  
25 that are offered to you for a sale. But if one takes a



1 about when you embark in a certain technological  
2 direction.

3 And coupled with all of that, the concern that  
4 you might have of having a claim of willful infringement  
5 being brought against you ultimately leads to a  
6 conclusion that it's better not to look or search or do  
7 clearance activities at all and go down a particular  
8 technology direction and then address anything that  
9 comes up at a later date.

10 MR. THORNE: I would just add that in agreement  
11 with what Noreen said, that the difficulty is not  
12 something that can be fixed with tweaks to the way  
13 patents are written or published. I tried at one time  
14 to count how many issued and still in effect patents  
15 might potentially be relevant to a company like Verizon  
16 and the number is around 700,000, only 10 to 20,000 of  
17 those trading every year, but the number is very, very  
18 large. It would be very difficult to do that kind of  
19 analysis for the entirety of what's out there.

20 MR. ADKINSON: Alex?

21 MR. ROGERS: So doing product patent searches  
22 and looking in the area where you're attempting to  
23 launch a new product is difficult, and it does require  
24 concentrated resources and it's never a simple process.  
25 At least in my experience it's never a simple process.

1 but I do think we ought to step back and look at the big  
2 picture and point out why that's a really good problem  
3 to have. It's a really good problem to have because we  
4 have an incredibly innovative society, and we have a  
5 patent system that has resulted in incredible innovation  
6 in the United States.

7 So that problem resides in or simply sits on  
8 tremendous inventiveness in this society. So while  
9 we certainly agree that the Patent Office can be  
10 improved and we can hopefully have more quality in terms  
11 of the patenting that's out there, the problem that we  
12 all have in building complex products that call upon  
13 large numbers of patents potentially is in a fundamental  
14 way a very good problem to have.

15 MR. ADKINSON: John.

16 MR. THORNE: Alex is one of the best IP lawyers  
17 in the world so I have terrific respect for his ability  
18 at analyzing things. But, I just remember the patents  
19 that he gave a pass on that almost stopped all the chips  
20 that his company made coming into America because they  
21 were to found to be infringing patents that Alex had a  
22 chance to look at.

23 In the first panel there were some differences  
24 between the life science patents and high tech or IT  
25 patents described. I do think there's a fundamental

1 property law kind of difference between the patents.  
2 Typically your miracle drug is a molecule, and one  
3 patent might be enough to protect it. Often there are  
4 more, but sometimes it's one patent, one product. In  
5 the high tech business a simple product can have a  
6 thousand or more patents on it while one of Vonage's  
7 defenses in the case that Verizon brought against them,  
8 their damage expert got up and said, "Verizon only  
9 has asserted seven patents against us. There are a  
10 thousand patents that cover our product."

11 They may have been right. There may have been a  
12 thousand patents covering their product. It's just the  
13 number of intersecting property rights on top of a  
14 simple -- in Vonage's case a simple high-tech product.  
15 It's too big.

16 MR. ADKINSON: We had wanted to focus on the  
17 source of the problem and we had let out several  
18 possibilities. Is clarity of patent drafting something  
19 that is a difficulty but not really the main source?  
20 Are the sheer numbers what really drive the problems?

21 MR. THORNE: If I was ranking things, sheer  
22 numbers is number one. What happens if a patent is  
23 enforced? Suppose you make a mistake? Even a good  
24 lawyer can make a mistake about whether you infringe and  
25 the patent is valid and now you're in the remedy phase

1 and there's uncertainty about the remedies that would  
2 be applied. A company like Verizon that has a lot of sunk  
3 capital in the ground worries about whether it's going to be  
4 held up by having committed so much investment, and  
5 being a big business means you have a big risk in  
6 front of a jury or if you're, God help you, at the ITC  
7 where injunctions can still be issued.

8 The uncertainty of the remedy phase is number 2,  
9 and then I think the notice function the patent served  
10 is pretty far down the list after that.

11 MS. BELLON: Anyone else on the topic? Russ?

12 MR. SLIFER: Well, somewhat on topic with that.

13 I would agree with both Noreen and John on that sheer  
14 quantity is an issue, especially in a semiconductor  
15 industry where we have literally thousands of potential  
16 patents to read. But I would also go with the abuse  
17 of the system, abuse of the continuation system  
18 especially in a product cycle that is less than even the  
19 18 to 24 months maybe or three years of development is  
20 less than a pendency or a case might issue within that.

21 But sitting back and waiting until an industry  
22 is fairly mature and has sunk billions of dollars in  
23 capital and then what I would consider morphing the  
24 specification to provide claims that read on the later  
25 developed product to me adds a great deal of uncertainty

1 even if I spent all of my time analyzing the claims that  
2 are out there that I can find that aren't pending in the  
3 Patent Office or have been published.

4 I certainly can't tell in a hundred page  
5 specification which one paragraph the owner might grab  
6 some support or argue some support for a claim that  
7 I never foresaw coming out of.

8 MR. ADKINSON: Noreen.

9 MS. KRALL: Yeah, I would certainly add, I agree  
10 with the problem once the patent has been issued and  
11 you're facing litigation. But some of these problems I  
12 think should be at least addressed to some extent  
13 upstream in the Patent Office. There should be a  
14 greater degree of emphasis on 110 type rejections para  
15 one, para two.

16 The patent examiners don't necessarily have the  
17 tools available to use that a lot of the outside  
18 analytical tools that we use, OCR searching  
19 capabilities that would allow you to find whether or not  
20 there's claim terms that are undefined in the  
21 specification or not depicted in the drawings.

22 So if there were some improvements in the patent  
23 examination process in some of these areas, to tighten  
24 up and very clearly articulate what the patentee intends  
25 to be their invention, that might help for the future.

1 There are also areas where patents are being allowed that  
2 there's just a dearth of prior art out there, and  
3 following some of the practice that's taken place in  
4 Europe where industry is able to provide or populate  
5 databases with non-patent prior art to help in the  
6 examination process and perhaps result in better quality  
7 patents I think is something that should be explored.

8 MR. ADKINSON: Matt?

9 MR. SARBORARIA: I agree with John that the  
10 number 1 problem is sheer numbers for us in the software  
11 industry. But uncertainty regarding claim scope is also  
12 a big problem, and I think it's particularly so in the  
13 software space where it is often unclear whether a given  
14 claim reads on software at all because of the unique  
15 ways that software inventions can be claimed, including  
16 many hardware elements.

17 So, even with a very diligent, thorough and  
18 costly search or clearance study, we run into the  
19 situation where patents are asserted against us, patents  
20 that never came up through that very diligent process.

21 MR. ADKINSON: Sarah?

22 MS. HARRIS: Our industry has a slightly  
23 different issue. Our number 1 issue would not be  
24 quantity but it is definitely quality because you'll  
25 have the garage inventor sitting going, wow, maybe I





1 the quantity issue stems from an underlying phenomena  
2 that is a very good thing, and that is the degree to  
3 which we encourage innovation in this country. It's  
4 been enormously successful for a very, very long time,  
5 so I'm not sure how you completely solve the quantity  
6 issue.

7 But I think I agree with everyone else on the  
8 panel here that focusing resources on the Patent and  
9 Trademark Office to give them the tools and the people  
10 that they need to examine applications in a way that  
11 they really ought to be examined, particularly when you  
12 probably have a growing number of applications being filed  
13 as you do, clearly we do, is probably -- I think  
14 everybody agrees that ought to be done.

15 MR. ADKINSON: In the shameless plug category,  
16 we're going to have a panel tomorrow afternoon that's  
17 going to -- an all star group addressing those topics.

18 It sounds to me like necessarily when you're  
19 making new product introductions you have to make a risk  
20 analysis based on the circumstances. To the extent you  
21 can talk about it, how does the current patent system  
22 affect that? I guess John had mentioned remedies as one  
23 aspect of how the system ultimately affects it, but if  
24 you could speak to the risks you faced, whether you  
25 choose to not go forward at times, and how hard it is to

1 go forward in the face of some of these risks?

2 MS. MICHEL: Please feel to bring in the damages  
3 issue at this point. I'm sure you all have a thought  
4 about how that affects your thinking, the potential  
5 liability.

6 MS. HARRIS: Whenever we introduce a new product  
7 or at its conception, we do the analysis to see, "Will  
8 the patents factor into this," but due to what Noreen  
9 said earlier, if it's a pretty quickly evolving  
10 technology, a search isn't going to do us any good  
11 anyway, and right now like all the patents that are  
12 currently being asserted us against in litigation we  
13 would never turn up in a search. It would never have

1       uncertainty.

2               We can't quantify the risk, so we just say, is  
3       it a good business decision to get in this market? Is  
4       it going to give us a competitive advantage and go  
5       forward?

6               MS. MICHEL: Do others feel you can't quantify  
7       the risk because there's too much uncertainty.

8               MR. SLIFER: Yes.

9               MS. MICHEL: Alex?

10              MR. ROGERS: It depends. There's really not a  
11       categorical answer, and certainly not in our case. It



1 fairly dim window for most of it, we saw 884  
2 semiconductor patents of the type that Broadcom used to  
3 challenge Qualcomm's chips coming in wireless phones  
4 into the U.S. That's an awful lot of patents to  
5 evaluate. We don't really have a good window into the  
6 way the semiconductors work. We have high level  
7 requirements for things but how the patents read on  
8 semiconductors are things that Alex's business would  
9 know a lot better than we do, but there are an awful lot  
10 of patents, and those are the ones that were for sale by  
11 brokers during that period.

12 Unlike Sarah, we're not seeing garage inventors  
13 with patents that are badly prosecuted. We're seeing  
14 patents that were originally prosecuted by the good R&D  
15 labs of the fortune 50 companies that are now in the  
16 secondary market for sale. That's the main source of  
17 what we see, and is the uncertainty a deterrent to  
18 innovation?

19 I think in the case of a Verizon or similar  
20 companies, it's a great source of worry. We spent a lot  
21 of money trying to deal with it and I see the purpose of  
22 patents being disserved by the current system.

23 MR. ADKINSON: Early in the panel there had been  
24 a discussion of some litigation you face and I think  
25 several of you indicated that there's quite a few NPE



1 different result, but unfortunately the operation as it  
2 is now is simply to sue first.

3 You then are faced with spending significant  
4 amounts of legal resources getting to the point where  
5 you have enough information to drive realistic  
6 settlement discussions, and that's unfortunate.

7 MS. MICHEL: You mentioned sue first. Has  
8 *MedImmune* increased the sue first phenomena versus  
9 negotiate first?

10 MS. HARRIS: In terms of?

11 MS. MICHEL: Patentee being worried about a  
12 declaratory judgment action being brought and so just  
13 going right to court? I have heard some people --

14 MS. KRALL: I think it was *ST Microelectronics*  
15 was --

16 MS. MICHEL: The *SanDisk* case, right, based on  
17 *MedImmune*.

18 MS. KRALL: After that it was rare we saw any  
19 demand letters. In that one year alone I think we had  
20 eight NPE lawsuits filed against us without any prior  
21 notice.

22 MS. MICHEL: In what jurisdiction were they  
23 filed in?

24 MS. KRALL: Texas.

25 MR. THORNE: We have about 24 cases pending,



1 almost all in Eastern Texas. One of them we got notice of  
2 the patent before the lawsuit was filed and that's  
3 because they filed a parallel lawsuit against other  
4 companies and we saw the other lawsuits, not the patents  
5 so we filed a declaratory judgment action in New  
6 York anticipating that they would sue us in Texas and  
7 settling that case, but otherwise they're all in Eastern  
8 Texas.

9 MS. MICHEL: Matt?

10 MR. SARBORARIA: It's a similar at Oracle.

11 The vast majority of our cases are ones in which our  
12 first notice of the patent was the filing of the

13 lawsuit. We too have seen a decrease in numbers of  
14 assertion letters post-*MedImmune*. We've seen an

15 increase as we talked about earlier this morning in

16 offers to sell patents which are unambiguously offers to

17 sell. 3 because they filed a parallel lawsuit against

18 We have seen a decrease in outright demand

19 letters as well as this sort of vague carefully worded

20 letters I think that are fairly interpreted as demand

21 letters based on the declaratory judgment case law.

22 MS. HARRIS: I've been at AOL for just a little

1 I would say, a few requests to license, and I hadn't seen  
2 those at any company that I've worked for before but  
3 it's people -- it's these licensing entities that are  
4 representing larger companies, and they said we have  
5 sometimes large portfolios, sometimes a number of  
6 patents in this specific area, but I wouldn't have  
7 expected that with *MedImmune*.

8 MS. MICHEL: How have the number of lawsuits  
9 you've been defending grown over the past five or seven  
10 years? Anybody have a sense of that?

11 MS. HARRIS: We've seen a 30 percent increase in  
12 the past two years year after year.

13 MS. MICHEL: Matt?

14 MR. SARBORARIA: We've gone from zero to 20 in  
15 the past five years.

16 MS. MICHEL: Okay. Alex?

17 MR. ROGERS: We've had a lot of litigation in  
18 the last three or four years, but it's been --

19 MS. MICHEL: Besides the Broadcom litigation?

20 MR. ROGERS: Besides the Broadcom litigation.  
21 We've had some NPE litigation. We actually are a co-  
22 defendant in a case with Verizon, and we have other  
23 situations involving NPEs, but for the most part I would  
24 say that most of our litigation time and expense has  
25 been, I'm lacking a word, traditional in the sense that

1 it is involving other product companies.

2 MS. MICHEL: John?

3 MR. THORNE: These are approximate numbers.  
4 2004 I think we had one NPE case or troll case filed  
5 against us. 2005 three, 2006 three, starting in  
6 2007-2008 one a month, and across a large number of  
7 companies, it was a handful of dozens in 2004  
8 growing into the hundreds by 2007-2008. There's been a  
9 very large increase.

10 MS. MICHEL: Noreen and also I would be  
11 interested in your theories on why?

12 MS. KRALL: I will simply share statistics.  
13 Until about 2004 we typically ran one to two patent  
14 cases on our docket over the course of a series of  
15 years, and it was around 2006 the numbers just jumped up  
16 into the double digits and has stayed around the 10, 12  
17 active cases since then.

18 MS. MICHEL: What happened in 2004? Theories on  
19 why? What are the reasons? What do you think is  
20 driving this behavior and why is this a good business  
21 model for the people bringing these lawsuits? This is  
22 your chance.

23 MS. KRALL: Money.

24 MS. MICHEL: Russ?

25 MR. SLIFER: Why is it a good business model?

1 Well, it doesn't require as much capital investment. It  
2 certainly doesn't require even on the litigation side  
3 nearly as much to bring the suit. The uncertainty of  
4 how the patent is going to be interpreted, the  
5 uncertainty of how a jury is going to view damages,  
6 certainly it has -- I mean, there have been a few things  
7 that have changed, whether it be injunctions or *KSR*,  
8 that certainly might affect that business model.

9 But I guess to your main question is it's a  
10 business model that tends to pay off quite well and in  
11 certain industries, can be asserted against an awful lot  
12 of defendants so collecting just enough from each one  
13 cumulatively pays off quite well for the investment.

14 MS. MICHEL: Matt?

15 MR. ADKINSON: Would anyone like to comment on  
16 how the developments like *KSR* and *MedImmune* and  
17 willfulness have potentially affected this evaluation,  
18 and *eBay* of course?

19 MS. MICHEL: And your other theories on why this  
20 is happening and the effect of these sort of  
21 developments on what's happening. Alex?

22 MR. ROGERS: I'll start. Clearly these cases  
23 have pushed the balance in favor of the  
24 potential defendant and against the interest of the  
25 patentee, so *eBay* has obviously done that. *Seagate* has

1 done that to some extent with the objective standard for  
2 willfulness, and so there has been a shift, and there  
3 has been -- I think John said it earlier, that there's  
4 reform occurring in the courts, and I think that's  
5 definitely true. There is reform occurring in the  
6 courts, and the discussion in *eBay* even points to the  
7 reform being directed towards that non-practicing  
8 entity.

9           So there has been this shift, and it's a  
10 relatively recent shift. I think there's a lot to be  
11 done to see how it plays out and how the courts continue  
12 to apply *eBay* and continue to apply *Seagate* and work  
13 some of these issues out, and the shift could continue  
14 again against the patentees in favor of the defendants  
15 in the court system itself without ever getting to any  
16 legislative issues.

17           MR. ADKINSON: In light of time, if people would  
18 also add what -- in addition to this particular topic of  
19 the impact of these cases, what additional things they  
20 think might need be done given all we talked about  
21 today. John?

22           MR. THORNE: Again it's hard to disagree with  
23 Alex on anything, but *eBay* was decided in 2006. We have  
24 seen much more troll patent cases in 2007 and 2008 than  
25 ever before, so *eBay* had no affect on troll cases being

1 filed. There's a terrific uncertainty in how damages  
2 works. Thanks to my colleague Gail Levine, we're going  
3 to submit a paper that goes through some suggestions to  
4 the Commission on damages later this week. There is  
5 reform going on in the courts. There's a lot more that  
6 needs to be done. I appreciate FTC's getting interested  
7 in this again.

8 MR. ADKINSON: Noreen?

9 MS. KRALL: I would like to address one last  
10 thing while we're here today, and that has to do with  
11 standard setting practices.

12 MR. ADKINSON: Oh, yes.

13 MS. MICHEL: Yes.

14 MS. KRALL: The standard setting practice is  
15 really a critical part of the technology development  
16 process. It really is when companies get together under  
17 a set of standard setting organization bylaws and  
18 develop an agreement on the common platform and  
19 parameters that technology is going to be developed on  
20 so that interoperable and quite frankly, at times,  
21 interchangeable products can be developed.

22 One of the problems that we're seeing partially  
23 driven by the secondary market is the fact that  
24 participants in the standard setting process have made  
25 commitments or assurances to these organizations in the

1 development of these standards that might not  
2 necessarily be honored by successors in interest when  
3 those patents are subsequently sold so we're seeing that  
4 as a problem.

5           Once you've got broad industry adoption of a  
6 standard, lock-in and investment, irreversible  
7 investments in developing products on that standard when  
8 somebody comes out and asserts patents against products  
9 to that standard, it causes quite a bit of disruption in  
10 the technology market and ultimately impacts the  
11 consumer.

12           The other problem that we've seen in the  
13 standard setting process is the lack of disclosure, if  
14 you would, of patent rights while the standard itself is  
15 being developed, and again greater transparency in that  
16 process, *ex ante* type of policies being driven by  
17 standard setting organizations I think would be a  
18 benefit for the tech industry in general.

19           MS. MICHEL: Any other comments on that?

20           MR. ROGERS: Can I finish up in response to  
21 Bill's request we make one last comment?

22           MS. MICHEL: Please.

23           MR. ROGERS: So as I said I do think that reform  
24 is recurring in the courts, and while that plays out, it  
25 often takes a long time for things to play out in the

1 courts. One of the things I certainly wouldn't want to  
2 see happen is the focus on NPEs cause a circumstance  
3 where we're undermining what is such an incredibly  
4 valuable patent system for our country and for  
5 innovation.

6 Qualcomm is a huge product company, but we think  
7 of ourselves as an R&D and a tech transfer company, and  
8 our ability to do what we do in R&D is dependent on a  
9 strong patent system and our ability to license and fund  
10 the R&D, so we certainly would hate to see that  
11 undermined.

12 MR. ADKINSON: Got you. Any other closing  
13 thoughts of any kind? If not thanks very much. We  
14 ended on time.

15 MS. MICHEL: Thank you.

16 (Applause.)

17 (Whereupon, a lunch recess was taken from 12:15  
18 p.m. to 1:45 p.m.)

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AFTERNOON SESSION

PANEL 3: MANUFACTURING AND DIVERSIFIED COMPANIES

MODERATORS:

SUZANNE MICHEL, FTC

ARMANDO IRIZARRY, FTC

PANELISTS:

JENNIFER M. STEC, Intellectual Property Counsel, Ford  
Global Technologies

GARY GRISWOLD, Retired President and Chief IP Counsel,  
3M Innovative Properties

CARL HORTON, Chief IP Counsel, GE

STEVEN W. MILLER, Vice President & General Counsel,  
Intellectual Property, The Procter & Gamble Company

RICHARD F. PHILLIPS, Chief Attorney, Technology,  
ExxonMobil Chemical Company

MS. MICHEL: Thank you for returning and  
attending the FTC's hearing on the Evolving IP Marketplace.  
I'm Suzanne Michel, the Assistant Director for Policy  
here, and this afternoon we will be talking about the role  
of technology markets and patent markets for diversified  
manufacturing companies and in the life sciences

1 tomorrow will address economic perspectives on IP and  
2 technology markets, and we'll have some of the leading  
3 academics and economists thinking about those issues.

4 Our next session will be on April 17 - the press  
5 release will be out soon - and will look at some of the newer  
6 developments in patent markets. We'll have the CEOs of  
7 Ocean Tomo, Acacia, ThinkFire and some academics who  
8 have been thinking about this and some people who have  
9 to live within these systems talking about their  
10 experiences with secondary patent markets.

11 Our final hearings in this series will be on May  
12 4th and 5th in Berkeley. We're very kindly being hosted by  
13 the Berkeley center for law and technology. We'll be  
14 covering many of the same issues that we've covered  
15 throughout the hearings in D.C. within those two days.

16 We welcome all comments. Feel free to call any  
17 of us, we would love to hear from you. In addition, the  
18 FTC has the record open so that any member of the public  
19 can submit comments about any of the topics we're  
20 discussing. We'll leave that open until May 15th so  
21 people can comment on the sort of issues that are coming  
22 up in these hearings, and then we will have to close it  
23 down and buckle down and begin working on our report.

24 So thank you very much. I'll turn it over to  
25 Armando to introduce our panelists.

1           MR. IRIZARRY: Good afternoon. I'm Armando  
2 Irizarry, Counsel for Intellectual Property here at the  
3 Commission. This panel is the Manufacturing and  
4 Diversified Industries panel, and we have a  
5 distinguished group of panelists representing some of  
6 the better known companies that make products that  
7 we are familiar with.

8           I'm going to begin with Gary Griswold. Mr.  
9 Griswold is a Consultant for 3M and was, until recently,  
10 the President and Chief Intellectual Property Counsel of  
11 3M Innovative Properties Company. He has practiced  
12 intellectual property law, at 3M and also at Dupont, for  
13 34 years.

14           He's the past President of the Intellectual  
15 Property Owners Group and the American Intellectual  
16 Property Law Association. He's a member of several  
17 other professional associations where he has held  
18 leadership positions.

19           He's been a member of the U.S. Secretary of  
20 Commerce Industrial Function and Advisory Committee on  
21 Intellectual Property Rights for Trade Policy Matters  
22 and an alternate member of the U.S. Secretary of  
23 Commerce Advisory Commission on Patent Law Reform.

24           Next on the panel is Carl Horton. Carl is GE's  
25 Chief IP Counsel. He joined GE in 1992. Prior to



1 and the IPO and on the boards and committees of several  
2 other professional, educational and academic  
3 organizations.

4           Richard Phillips is the Chief Intellectual  
5 Property Counsel of ExxonMobil Chemical Company. He  
6 began employment with ExxonMobil in 1982 and held  
7 positions in various ExxonMobil affiliates and ventures  
8 prior to assuming his present position in 1998. He  
9 began his IP career with Caterpillar Corporation in  
10 Illinois.

11           He also worked for a year as a field engineer  
12 overseas, immediately after getting his law degree. This  
13 on the theory that he would be a lot more fun than  
14 practicing law. According to him it wasn't. Mr.  
15 Phillips is a member of the IPO Board, and he's active  
16 in other IP related associations. In the IPO, he serves  
17 on the Board of the Education Foundation, and he's  
18 active in the Amicus Committee.

19           Before I introduce our last panelist, I just  
20 want to mention that if you saw the earlier agenda, Bill  
21 Coughlin, President and CEO of Ford Global Technologies  
22 was supposed to be on this panel but unfortunately he  
23 could not be here with us today. In his stead, he sent a  
24 very able replacement in the person of Jennifer Stec.

25           Jennifer is Intellectual Property Counsel for

1 Ford Global Technologies, a wholly owned subsidiary of  
2 Ford Motor Company, responsible for all intellectual  
3 property matters across Ford's worldwide enterprise.

4 Ms. Stec manages Ford's patent litigation as  
5 well as patent and licensing matters related to Ford's  
6 telemetrics and infiltronics technologies. Prior to  
7 joining Ford in 2000, Ms. Stec was Counsel at another  
8 automotive OEM and also practiced intellectual property  
9 at a Detroit area intellectual property firm.

10 We're now going to begin with introductory  
11 remarks, so each panelist will have about five minutes  
12 to make introductory remarks, and why don't we begin  
13 with Gary.

14 MR. GRISWOLD: Thank you. Thanks for the  
15 introduction, and as was mentioned I am now somewhat  
16 retired but actually not totally retired, but I'm here  
17 on behalf of 3M, and thank you for having these  
18 hearings. I think they'll be very interesting. I  
19 listened to part of the hearing this morning and it was  
20 good.

21 Just speaking from 3M's perspective, the patent  
22 system is a very significant issue for our company. 3M  
23 and its affiliates own a patent portfolio of more than  
24 6,000 issued U.S. patents. We have a long  
25 standing committee to protect our research and

1 development investments which totaled \$1.4 billion  
2 last year and it's resulted in many inventions  
3 and innovative products.

4           3M's business interests are extremely diverse.  
5 We sell over 55,000 products in six different industry  
6 segments. The segments that range from industrial  
7 products from sand paper and adhesives, consumer  
8 products like post-it notes and Scotch tape, safety and  
9 security products like RFID tags and readers and  
10 respiratory masks, displaying graphics products like  
11 optical films for computer screens and reflective  
12 sheeting for road signs, telecommunication products like  
13 optical -- fiberoptic connectors and healthcare products  
14 like stethoscopes, dental implants and medical billing  
15 software.

16           Just as an aside, I actually managed the dental  
17 business for six years, so I ran an operating division  
18 of the company, which makes me a little unique in the  
19 patent circles I think.

20           One thing that 3M does very well is it takes  
21 technology from one industry, for example, abrasives and  
22 puts it to work into another industry like dental. We  
23 did that, and that's why the patent system is very  
24 important to protect those inventions because once we've  
25 done it, other people say, "Gee, we can make that

1 connection."

2           The bottom line is 3M is very interested in  
3 making sure we have a strong patent system and we often  
4 are on the offense asserting our patents but not always.  
5 Sometimes we're sued for patent infringement, so we like  
6 to see a balance to patent law and that's the way we've  
7 participated in the debates that have been continuing on  
8 patent reform.

9           MS. MICHEL: Thank you. Carl?

10           MR. HORTON: I do want to thank the FTC for  
11 holding these hearings and for allowing companies like  
12 GE to come in and give our thoughts and opinions and  
13 perspective on the issue of intellectual property.

14           I think it's not only important today but I  
15 think it's going to be increasingly more important  
16 particularly in the environment like we have now. I  
17 thought I would give a 60 second version as well  
18 about what GE is.

19           It's not surprising we're a quintessential  
20 conglomerate, and that we've got a lot of businesses in  
21 a lot of different spaces, but the way I kind of break  
22 it down is I start with the technology pieces of it and  
23 that's what we call our infrastructure business, and as  
24 the name applies, it's products necessary to build up  
25 the infrastructure of our country.



1           So you would start with energy and supplying  
2 energy as well as the oil and gas equipment and  
3 pipelines that feed that. Then we get to the  
4 transportation segment where it's aircraft engines and  
5 avionics as well as the rail systems that move products  
6 from one end to the another. Then finishing that out  
7 with probably security and water.

8           Then we move to another industry segment that  
9 we're in which is healthcare, also a significant  
10 business, although only about at third of the size of  
11 the others, but still about \$17-18 billion.  
12 We are predominantly a diagnostics company, all the  
13 equipment and life science tools around the diagnostics  
14 as well as information technology within hospital and  
15 other health care information technology within hospital  
16 and other health care.

17           Third, is the consumer and industrial  
18 business, products that people tend to know a little  
19 better, lighting, appliances and things like that, as  
20 well as lesser known products along the  
21 electrical infrastructure pipeline, so once the energy  
22 is generated, anything that's necessary to get it from  
23 the generation side back into the home or an office  
24 building or a plant as well as the safety electrical  
25 infringement that accompanies that as well as factory

1 automation and the like.

2 Then finally one of our other technology or  
3 investment intensive businesses is NBC Universal where  
4 we are a broadcast company, a media company that owns a  
5 number of different cable channels.

6 And then finally the part of the company we  
7 don't like to talk about in today's environment is  
8 financial services, so it was a very big part of our  
9 company. It's now a lesser part of our company but  
10 still very significant, so we're in consumer and  
11 commercial finance.

12 So that is the background. You had

1       unsuccessful investments.

2               Then we have those that are more defensive where  
3       I think that the R&D investments are a little lower, the  
4       unpredictability is also much lower, and therefore you  
5       have a lot more competitors. The products tend to be a  
6       little more commoditized, and so we tend to build our  
7       portfolio primarily with gaining some competitive  
8       advantage for the features that we may put forth in the  
9       market first, but for the most part, I would say that  
10      their structure around IP is more of a defensive  
11      model.

12              But I would say for all of GE, the IP serves as  
13      a very valuable function in being a facilitating force  
14      in collaboration with third parties, joint ventures,  
15      joint developments. It's a tool that enables us to do

1 taking over where we have invested and driven forward  
2 technology and innovation.

3 MS. MICHEL: Steve?

4 MR. MILLER: Thank you, Suzanne, and thank you  
5 for inviting Procter and Gamble to participate. Three  
6 billion times a day Procter and Gamble brands touch the  
7 lives of people around the world. We have a strong  
8 portfolio of trusted quality leadership brands including  
9 Pampers, Tide, Pantene, Bounty, Crest, Olay and  
10 Gillette.

11 The P&G community includes approximately 138,000  
12 employees working in over 80 countries. In 2008, *Business*  
13 *Week* selected P&G as the world's 8th most innovative  
14 company. While many associate innovation with computer  
15 companies rather than consumer products companies, that  
16 association is too limited.

1 Patents and trademarks protect this investment in R&D as  
2 well as ensure P&G maximizes its return on its  
3 investment. Without strong IP protection, the value of  
4 our brands can be significantly diminished. Competitors  
5 would be free to copy our technological and commercial  
6 innovation without making the same investment or  
7 incurring the same risks.

8 IP provides us a competitive advantage that  
9 leads to increased value for shareholders and improved  
10 products for consumers. P&G maintains over 36,000  
11 active patents worldwide and over 110,000 trademarks  
12 worldwide.

13 Traditionally, P&G's success resulted from  
14 internal invention that led to innovation. In 2000, our  
15 CEO, A.G. Laffley, challenged the company to reinvent  
16 our innovation business model. He understood that the  
17 key to future sustained growth was a new concept of open  
18 innovation, leveraging one another's innovation assets.

19 He made it a key strategic goal to acquire 50  
20 percent of P&G's innovation from outside the company.  
21 This year P&G will exceed that goal. Through our  
22 connect and develop innovation model, R&D productivity  
23 is increased by nearly 60 percent, and our innovation  
24 success rate is more than doubled while the cost of  
25 innovation has fallen.

1           An important learning from our Connect and  
2 Develop program was the realization that innovation  
3 was increasingly done at small and mid-sized  
4 entrepreneurial companies, universities, government labs  
5 and by individuals.

6           These entities were eager to form partnerships  
7 with industry and to license and sell their IP. One  
8 critical aspect of this program thus became the ability  
9 to create and optimize the value of IP for both P&G and  
10 its partnerships through sale, licensing, or alternative  
11  
12 means of commercialization.

13           We've restructured our thinking on ownership and  
14 utilization of IP to better benefit all parties. The  
15 licensing of technology provides P&G with access to  
16 other's IP to accelerate P&G's innovation. We do much  
17 more in licensing of technology than we've ever done  
18 before.

19           We also out-license P&G's internally developed  
20 IP. The out-licensing program results in a source of  
21 revenue, decreased costs, and new opportunities for  
22 licensing joint ventures and strategic alliances. Over  
23 \$3 billion in sales by other companies is powered  
24 by P&G IP.

25           In terms of patent litigation, P&G is typically

1 about equally enforcing its rights against infringers  
2 and a defendant. Because we are in both positions we  
3 take a very balanced viewpoint on litigation.

4 As a defendant, patent assertions has some effect  
5 on our ability to innovate in that it divers research  
6 away from core research. However, given the time and  
7 effort we devote to avoiding issues with other patent  
8 owners before we market our products, this is a minimal  
9 cost compared to the overall R&D budget.

10 Rather than hindering innovation, we often find  
11 that patents and patent litigation spur our competitors  
12 and us to find new and innovative ways to solve the  
13 problem by designing around the patented invention,  
14 often leading to a better and cheaper solution for  
15 consumers.

16 I look forward to discussing these issues in the  
17 roundtable, Suzanne. Thank you.

18 MS. MICHEL: Thank you. Thank you very much.  
19 Richard?

20 MR. PHILLIPS: Thank you very much for the  
21 invitation today. ExxonMobil probably needs no great  
22 introduction. We're an integrated oil, gas and  
23 petrochemical company. We use innovation and technology  
24 to find, develop, produce, and refine fuel, lubricants and

1 Research and development is key to our existence. We  
2 invest more money in R&D than any of our competitors in  
3 any nation of the world.

4 We use that technology not only in our own  
5 operations but we license dozens of our competitors in  
6 dozens of countries around the world to use technology  
7 that we have developed. But for a strong patent system  
8 in the United States, much of that technology would not  
9 be developed, or if developed, would not be licensed. A  
10 strong patent system is key to us.

11 MS. MICHEL: Jennifer, and thank you for  
12 stepping in. We very much appreciate that you're here.

13 MS. STEC: Thank you very much, and thank you  
14 inviting Ford to participate. As with the other  
15 companies, patents are very important to Ford, and I  
16 don't think Ford needs any explanation in terms of its  
17 product. In fact, we've been divesting everything that  
18 is not very core to automotive.

19 In that regard, we've still been focusing on  
20 improving the technology and fostering innovation in our  
21 vehicles, and for those kinds of activities and our R&D  
22 patents and the IP system are very important to us.

23 First of all, they help us provide hard core  
24 inventions. They help us to encourage our inventors and



1 and to be rewarded for their competitions.

2           They also help us leverage that investment in  
3 joint ventures and other kinds of relationships that we  
4 have with others. It's a way for us to get value and to  
5 bring equity into a transaction in order to get  
6 something back.

7           We also use patents to help support our brands  
8 and our advertising. Recently, we've been advertising  
9 patents that we've obtained in vehicles and like everybody  
10 else we use patents for defensive reasons. Each year,  
11 Ford files about 500-600 patent applications in the  
12 U.S. on inventions that we make in the U.S. as well as  
13 additional patents overseas.

14           We have a very active licensing program and  
15 bring in tens of millions of dollars a year in licensing  
16 of technology -- not only patents though -- software and

1 reaching out to bring technology into the company. Can  
2 you elaborate more on that and how it's going? Is that  
3 successful, a successful program? Do you see it  
4 continuing at P&G?

5 MR. MILLER: It's going to continue for a long  
6 time. I think I cited some stats in my opening  
7 statement, but that it's actually reduced our costs of  
8 R&D. We're making more connections and we're bringing  
9 more products to the marketplace than we ever had at a  
10 faster rate, and I'm proud to say that many of the folks  
11 on the panel are my suppliers.

12 And so we've reached out and we've worked with  
13 them and we've used the expertise and the knowledge that  
14 they have and the intellectual property that they have  
15 and bring that together with ours, and one plus one makes  
16 three or five instead of two, and so I think this has  
17 been a huge benefit but it wouldn't happen without  
18 intellectual property.

19 If each side wasn't able to bring, and protect  
20 what they bring, into the relationship, and then manage  
21 how IP comes out of the relationship, there wouldn't be  
22 an incentive for anyone to get together because we would  
23 not be able to take that risk because others could come  
24 in and exactly duplicate what we do, quickly and without  
25 the risk and the money that we put into it.

1           MS. MICHEL: So you're talking about bringing in  
2 technology from both larger companies and then in your  
3 opening statement you talked about start-ups and  
4 universities.

5           MR. MILLER: Right.

6           MS. MICHEL: Does the process work any  
7 differently depending on who you're dealing with, a  
8 start-up versus --

9           MR. MILLER: Not really, other than the  
10 sophistication of the party. We found that small  
11 entrepreneurial companies, universities, and even the  
12 government is very receptive. We've all heard over  
13 the last 10 or 15 years about monetizing your IP assets,  
14 and so that word has gotten out.

15           So they want to partner with good partners,

1           Steve, I want to follow-up for just a minute  
2 because this is such an interesting and I think  
3 important area that we've been hearing about from a lot  
4 of different angles, and this is our first time hearing  
5 about it from the large company perspective.

6           When you're thinking of bringing in technology  
7 from a start-up, how do you filter through the different  
8 possibilities that are out there or identify a promising  
9 technology? Are people bringing you a lot of offers and  
10 how do you get through that?

11           MR. MILLER: It's a little bit of both, which is  
12 really great. Because of the connections we're able to  
13 make, both with the large companies and small companies  
14 and individuals, people are now willing to bring things  
15 to us as well as us going out and searching the  
16 marketplace for those ideas that we think will work.

17           And by them bringing it to us it's often things  
18 that we haven't thought of before. To give you an  
19 example, Mr. Clean Magic Eraser which I hope everyone  
20 has seen or used, was an idea that was in Japan that  
21 someone found and then came to us and said, "Would you  
22 think this is a good idea?" We were able to bring it  
23 to market very quickly based on that.

24           So it's those connections that normally our  
25 researchers wouldn't make -- that says we can combine that

1 with Procter and Gamble technology and make this even  
2 better for the consumer, and that's happening faster and  
3 much more efficiently because they know we're willing to  
4 partner and give them a win/win situation. They can own  
5 some of the intellectual property or they can be  
6 licensed out so they'll get revenue from us using their  
7 technology.

8 MS. MICHEL: We've often heard from independent  
9 inventors and start-ups that it can be very hard just to  
10 get a foot in the door of the large company and partly  
11 because of the large number of these offers that a big  
12 company might get and how to think of it.

13 Do you have any ideas or comments on that

1 some of the other companies here is you change the  
2 culture from a not invented here culture where  
3 everything has to come from your own laboratory, to boy,  
4 there are some pretty smart people out there and they  
5 have great ideas that they can bring to us, and when  
6 that happens you make more and more connections and  
7 those better ideas tend to flow in.

8 MS. MICHEL: Thank you.

9 MR. IRIZARRY: P&G's C&D program has received  
10 some collaborations and we're aware of it and it's even  
11 got a web site I saw this morning, and I'm just  
12 wondering if the other companies are thinking about  
13 doing some of the same thing or similar thing or have  
14 something in place already?

15 MR. GRISWOLD: 3M historically has operated with  
16 outside ideas a lot. Most people would think that we  
17 don't because we tend to have a reputation for  
18 substantial internal innovation but actually we have  
19 that but we also -- that tends to be stimulated by these  
20 outside ideas.

21 Actually many acquisitions that we have, when  
22 they come into the company, they wind up stimulating  
23 whole new areas and our researchers and connections that  
24 they wouldn't have before and that happens with  
25 individual ideas that come in. We are a supplier to P&G

1 and one of these companies that worked with P&G  
2 cooperatively, and it works well because we have certain  
3 expertise, P&G does.

4 We want to make sure that downstream we have an  
5 ability to operate our business the way we need to  
6 because we're using the technology broadly. P&G  
7 wants to be able to operate effectively through that  
8 cooperation, so it helps define the relationship.

9 The patent rights are very helpful in defining  
10 who does what, how the cooperation works and organizing  
11 the whole function, so it's a really good way for  
12 companies to get together so that's what we've done.

13 MS. MICHEL: Carl, you also mentioned using  
14 patents to facilitate.

15 MR. HORTON: Yeah. Along the connect and  
16 develop front, I would say we kind of -- we run the full  
17 spectrum, from our more consumer driven businesses, a  
18 little more commodity style. We tend to have a more  
19 collaborative approach and we do some connect and  
20 develop, not nearly the kind of success that P&G has  
21 experienced.

22 On the other end of extreme you're talking about  
23 jet engines, and not a lot of people tinker with them in  
24 their backyard so we don't get a lot of ideas or help in  
25 that area, but I would say in the healthcare space we see a

1 fair amount of activity and it's largely the way that  
2 model has evolved. We take in a fair amount of  
3 technology in the life science space where people do go  
4 out, and a fair amount of research is done in labs  
5 all over the world.

6           And then with the equipment that we put in the  
7 hospitals, we create some fairly sophisticated  
8 equipment that university professors and doctors tinker  
9 with to find better ways to use it. So they are the  
10 ones that really put into practice and develop new  
11 practices, new processes using that equipment that we  
12 then license back in, make it part of our standard  
13 offering and push it back out again so there's a fair  
14 amount of collaboration but it's with I would say a more  
15 sophisticated base predominantly within the university  
16 setting.



1 way we get access to resources overseas in most  
2 countries of the world is by doing a venture of sorts  
3 with a government or quasi-governmental entity, and the  
4 way we get access to that is through three things.

5 We present ourselves as being more talented from  
6 the standpoint of managing huge capital projects. We  
7 can bring the capital to those projects, but the third  
8 advantage we bring is technology, and the thing that  
9 makes ExxonMobil and some of the other majors a very  
10 attractive partner in many parts of the world is that we  
11 can bring a packaged technology to find,  
12 produce and deliver at low cost and environmentally safe  
13 manner, resources that governments, acting on their own,  
14 could not produce. They may have the money but they  
15 don't have the expertise.

16 So where do patents come in? Most of the  
17 countries in which we operate do not have effective  
18 intellectual property systems, and that is a fact of  
19 life. If you're going to operate in parts of the world,  
20 we don't need to name countries, you are not going to be  
21 able to protect your intellectual property there, but I  
22 must be able to protect it in the United States. I  
23 must.

24 To the extent that I disclose technology in some  
25 parts of the world that necessarily will come into the

1 public domain, I need to be able to protect it in the  
2 United States, in Europe, in Canada, in Japan and in  
3 Korea. To the extent we have an effective patent system  
4 that gives me, ExxonMobil, a stronger tool to get access  
5 to these resources that our countries needs.

6 MR. IRIZARRY: Why do you say that you must  
7 protect them in the United States if they're not going  
8 to be effective in using them in other countries?

9 MR. PHILLIPS: Well, the United States of course  
10 itself is a very large market for hydrocarbons, and to  
11 the extent that people are actually producing  
12 hydrocarbons into the United States or importing into  
13 the United States, I can use the U.S. patent system to  
14 protect our position, so it creates a greater incentive  
15 to me than would otherwise exist to invest money in R&D,  
16 to protect technology at least in those parts of the  
17 world with an effective intellectual property system.

18 Imagine a world in which the United States did  
19 not have an effective intellectual property system.  
20 What advantage is there to ExxonMobil to investing a  
21 billion dollars a year, developing new technology for  
22 finding oil inexpensively if that then can be disclosed

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1 in. What about licensing out technology? Is that an  
2 important mechanism for partnering or just for bringing  
3 in licensing revenues to your company, and what are some  
4 of the concerns that you face in licensing out your  
5 company's own technology?

6 MR. GRISWOLD: I can start that. We didn't  
7 license out that much, 3M didn't for many years but in  
8 the last I would say eight or so years we've done a lot  
9 more of it. The benefit has been that certainly  
10 we've put to work investments that we made in the past  
11 and they converted into intellectual property. So that  
12 was valuable. We got a return on that so that was very  
13 good.

1 abrasives that I said we used for dental filling  
2 materials somewhere else. We don't know. It may wind  
3 up over in another area so you're always cautious about  
4 licensing it or working with somebody that you're  
5 licensing it out in this area when we might want to put  
6 it to work over here so you have to be careful, but it's  
7 been very helpful, very good for us to do more licensing  
8 out in our revenue, and that area has jumped  
9 dramatically.

10 MS. MICHEL: Carl?

11 MR. HORTON: Yeah. I would say we license out  
12 and not infrequently, but I think if you were to look at  
13 our total patent portfolio I think we have about 18,000  
14 active patents. There are far more that are licensed to  
15 competitors and business partners than just simply  
16 licensed out for cash.

17 That is a primary source of establishing some of  
18 those relationships. As Steve mentioned earlier without  
19 the clear parameters that the intellectual property  
20 gives you, it's hard to enter into those transactions to  
21 know that I bring X, Steve brings Y, and together we can  
22 go and venture in a new place, knowing that I have a  
23 certain amount of protection to cover what's important  
24 to me, and he has adequate protection to cover what's  
25 important to him.

1           That's the kind of certainty that we need to  
2   enter into that relationship. Absent that, having those  
3   clear boundaries and parameters defining and giving us  
4   some degree of control over our future, because I think

1           MS. STEC: Ford does substantial licensing-out,  
2 although we don't call it licensing-out. We call it  
3 technology commercialization because in our view that's  
4 what it is. It's more than just bare patent licenses.  
5 It's bringing technologies that we've developed to  
6 others for various reasons. One obviously is for  
7 income.

8           The other is we've been able to do this kind of  
9 thing to improve relationships. We have a new program  
10 with minority suppliers where we try to help them by  
11 making some of our patents and our intellectual property  
12 available to them, and another way we reap benefits from  
13 that is through improvements that others -- that  
14 licensees might make to a technology.

15           For instance, we have some basic night vision  
16 technology. Night vision is something that just  
17 hasn't quite made it into vehicles. By licensing it  
18 out, we take rights and improvements back so that  
19 applications for night vision, which might be security  
20 systems or those kinds of things might foster  
21 improvements that ultimately we can use someday if they  
22 end up implemented in vehicles.

23           MS. MICHEL: Yes. Richard.

24           MR. PHILLIPS: Folks talk frequently about  
25 monetizing existing intellectual property. It's

1 important to remember that the IP system promotes not  
2 only transferring technology you've developed for your  
3 own use, but also many companies, including ExxonMobil,  
4 have businesses that themselves are developing and  
5 licensing technology, not necessarily technology that  
6 you use commercially.

7 Like ExxonMobil, many of our competitors developed  
8 centers of expertise that become very, very powerful  
9 research engines. We run that engine, develop that  
10 technology, license that technology to other companies,  
11 some of our competitors, even where we don't use the  
12 technology ourselves. We invest money. We transfer  
13 the technology to somebody to help make them more  
14 profitable. We get some cash back. Everybody benefits.  
15 The consumers get better products.

16 So it's not just monetizing existing  
17 intellectual property. It's also the patent system a  
18 driver for developing technology even where a company  
19 may not use it itself.

20 MS. MICHEL: In that scenario, when the initial  
21 thinking is done about going down a particular R&D path,  
22 is it part of the thinking from the beginning we may  
23 license this out and not develop it ourselves or is the  
24 thinking in the beginning this is something we might  
25 want to do but then you get farther down the line and

1 for whatever reason decide to license it out?

2 MR. PHILLIPS: In our case, we never set out to  
3 create technology that we don't intend to use.

4 MS. MICHEL: Okay.

5 MR. PHILLIPS: But often, we'll create  
6 technology that for whatever reason we decide we're not  
7 as well positioned as a competitor may be to use.  
8 Once we've developed it, we say "If we invest another  
9 \$100 million and develop this technology, we  
10 can make \$200 million, and so we get a group of  
11 scientists with great expertise involving technology  
12 that's used by other companies but not by ExxonMobil but  
13 we're making money on it.

14 MS. MICHEL: Okay. Carl?

15 MR. HORTON: I was going to say I would add to  
16 that the other phenomena that takes place very  
17 frequently is we're faced with a problem. We don't  
18 necessarily know what the winning solution will be so we  
19 invest in multiple different R&D efforts not knowing  
20 which will be superior at the end of the day but you  
21 have to see them to a certain degree before you can make  
22 that determination.

23 Ultimately, that leaves you with three or  
24 four or five or six areas of technology that weren't  
25 commercialized because you picked the one that was best



1 and went forward with it, but you're left with an  
2 investment, a sunk investment into R&D and those other  
3 areas so naturally you look for ways to find  
4 applications where it could be used or license it out to  
5 others in other industries or even within your own  
6 industry.

7 MS. MICHEL: Okay.

8 MR. GRISWOLD: I'll make one point on that.

9 MS. MICHEL: Yes, please.

10 MR. GRISWOLD: When you get done with  
11 all this R&D we're talking about, you have notebook  
12 records or you have some record of it. But, really, when  
13 it gets down to it, the thing that turns that into  
14 a return is the patent rights. If you don't have  
15 the patent rights, you have notebook records, this  
16 information in people's heads but you don't have assets  
17 to put the work and define what you've done, and it's  
18 not easily transferable.

19 There is trade secret you can transfer and do  
20 that sort of thing but the patent rights are really the  
21 key ones.

22 MS. MICHEL: Okay. How does what we've been

1 your own technology developed internally? Is that  
2 something also that's important to your company,  
3 maintaining exclusivity and how do you use your patents  
4 in that context? Is it important to be clear that  
5 you're willing to go to court if necessary? Gary?

6 MR. GRISWOLD: Absolutely. If you're not  
7 willing to enforce your patents, then over time you have  
8 a reputation that people get closer and closer to your  
9 inventions and pretty soon they're -- what you've  
10 developed is not valued by others, so it's important to  
11 enforce your rights, no question about it.

12 Also if you want to -- if you are, as some of  
13 the others have talked about, willing to license those  
14 rights and different uses, it's also important for  
15 people to understand that, so that they know they can  
16 collaborate and you can actually get the leverage of  
17 other companies putting to work your technology in areas  
18 that you wouldn't put it to work in, but the willingness  
19 to enforce is important.

20 MS. MICHEL: Okay. Defensive use of patents.  
21 We heard earlier today about the IT industry, maybe  
22 perhaps buying or developing patents to be able to use a  
23 portfolio defensively if someone else charges that  
24 company with patent infringement. Does that happen?  
25 Does that dynamic play out at all in your companies and

1 in industries, that you acquire patents thinking --  
2 either through internal development or purchase with the  
3 thought I want this just in case someone comes after me?  
4 I'm trying to understand if this is an IT only  
5 phenomena.

6 MR. GRISWOLD: I would say we tend to have more  
7 of -- 3M has more of -- I would say more of an  
8 optimistic look. We tend to think in terms of "What can  
9 this do for us business wise?" We have acquired  
10 patents and technology that have added to our -- helped  
11 other investment in developing the technology, so when  
12 we get downstream we have a better scope of protection  
13 for that technology against other people that would  
14 infringe it.

15 So that would be more of a view of -- more of a  
16 positive view of the situation than putting together a  
17 portfolio for use as you describe.

18 MS. MICHEL: Okay.

19 MR. MILLER: I think the thing that we tend to  
20 do and a lot of other companies tend to do is they  
21 acquire patents to get freedom to practice or freedom to  
22 market. They don't acquire them to look for trading in  
23 the future. When we go out and we license or we  
24 purchase rights, it's because we think we're going to  
25 market something in the future that may be blocked by

1     that patent or that we may be innovating into that  
2     arena. Now, sometimes we don't, and then we have that  
3     asset and we have to determine what we're going to do  
4     with it, but I don't think that strictly speaking we  
5     would acquire assets just to have them for trading  
6     purposes.

7             MS. MICHEL: Carl?

8             MR. HORTON: I guess the only two areas that I  
9     can think of where we don't do exactly what Steve  
10    described, which I think is the vast majority of why we  
11    would license in or require patents is for our own  
12    access to market. In the life science business we have  
13    acted as an aggregator of types for some patents that we  
14    didn't necessarily practice but that made it easier for  
15    us to get the whole package of technology to market  
16    because part of it involved licensing the underlying  
17    technology, and people weren't willing to do that if  
18    they had to license it from 10, 12, 15 different  
19    entities.

20            By aggregating it ourselves, we essentially

1 market is where you're going down multiple paths  
2 simultaneously. We may license in for several different  
3 patents, again not knowing which one will play out in  
4 the long run. We firmly believe that the most cost  
5 efficient way to deal with other's patents is up-front,  
6 identify them early, license them in where you can't  
7 design around them and make them part of your  
8 commercialization path knowing at times you're going to  
9 license in more than you need.

10 But if it's done primarily on a royalty basis  
11 and you don't commercialize it, you're only out the  
12 up-front money anyway.

13 MS. MICHEL: Okay. What are your abilities to  
14 do that, to identify the patents up-front and bring them  
15 in? How confident can you be that you've identified all  
16 the patents that you need, and if you can't be what are  
17 the problems you face in doing that?

18 MR. HORTON: We've had reasonably good success I  
19 would say. There's few of the litigations that we can  
20 point to where we didn't identify the patents and maybe  
21 had some disagreement over whether or not they should  
22 have been entitled to the patent, the scope of the  
23 patents. That happens fairly frequently, but very few  
24 times where we didn't see the possibility, and again  
25 those breakdown into two camps: One, where we think

1 that the patent holder is straining the interpretation of  
 2 the claims well beyond reason so we didn't even think it  
 3 was an issue to begin with, but secondly, occasionally  
 4 you don't pick up everything.

5 And I think there is some minor differences  
 6 between the types of technology. The chemistry arts are  
 7 being probably the simplest because the convention is so  
 8 clean and consistent throughout the industry so they're  
 9 easier to find the right patents and the total number is  
 10 probably a little lower.

11 MS. MICHEL: By that when you say the convention  
 7 12 is considered as another technology within the  
 13 industry?

14 MR. HORTON: The terminology.

15 MS. MICHEL: So you can tell bwech0 0.00000 1.00000 0.00a

1 lot more to sort through. Again we try to automate as  
2 much as that as possible but sooner or later you just  
3 have to plow through one at a time and read the claims  
4 and develop that certainty.

5 In the software arts, the same kind of thing, the  
6 number is higher but people tend to call things very  
7 differently. Each of us could describe it in almost a  
8 different way, and so the automated portion of finding  
9 the right prior art is a little more tricky, a little  
10 more challenging.

11 MS. MICHEL: All right.

12 MR. IRIZARRY: In a company such as GE which is  
13 so diversified, in applying for a  
14 patent, in drafting the patent application, do you use  
15 different criteria that reflects the different industries  
16 that you're going to be using them in, different  
17 criteria for IT technology than from life sciences  
18 technology or is it just one big patent application  
19 pool?

20 MR. HORTON: We use the same generic criteria.  
21 How they play out within a given business or P&L  
22 may differ and the amount that they're willing to invest  
23 in intellectual property based on the potential return  
24 may be lower depending on the power, so to speak, that the  
25 patent would enable them over the long-term. So, we see

- 1 differences in the amount they invest in IP
- 2 but we use the same general criteria to determine



1 parametritis, parameters that are not known and  
2 recognized in the industry. They'll create a term, and  
3 they'll say, we claim a polymer, we claim an  
4 oxyl-alcohol, we claim a method of seismic stratigraphy  
5 that has some property that is not recognized in  
6 science, so you're put to a cruel dilemma. Do you try  
7 and go in and understand that property?

8           It may be very expensive to determine just what  
9 the patent covers. In Europe, and many other countries,  
10 there are pretty good systems to deal with that, like the  
11 patent opposition system. In the United States, I do not  
12 have an effective tool for testing the scope against the  
13 validity of a patent, and that is a fundamental failing  
14 in my company's judgment of the U.S. patent system, no  
15 good mechanism short of litigation, the courthouse  
16 door, for testing just what a patent really covers.

17           MS. MICHEL: Would there be any other ways to  
18 address that problem within the PTO, within the  
19 examination process?

20           MR. PHILLIPS: Well, reexamination of course has  
21 been in existence for a long time, and generally we feel  
22 it's not nearly as level a playing field as the  
23 opposition system that many other patent systems have,  
24 so we would favor a single phase opposition system,  
25 somewhat along the lines of what we have in Europe.

1 MS. MICHEL: Jennifer?

2 MS. STEC: We have almost two distinct worlds in  
3 that regard. One is the strictly automotive vehicle  
4 world in which our business works. The other world is

1 complicated for us to get suppliers involved and get the  
2 real parties involved. I think their damages model  
3 usually starts with a theory that goes towards some  
4 percentage of the entire price of the vehicle, which is  
5 obviously very expensive.

6 MR. IRIZARRY: Do you ask for indemnification  
7 from your suppliers in the case that there is a patent  
8 infringement suit, that they indemnify you?

9 MS. STEC: We do.

10 MR. IRIZARRY: How does that work into this  
11 process when you say that Ford ends up being the  
12 defendant?

13 MS. STEC: Typically pretty good but everybody  
14 is always reluctant. There are assertions of  
15 infringement that the supplier might feel are unfounded,  
16 and so therefore, feel like we don't infringe. "We don't

1           MS. MICHEL: Will Ford and your supplier be in  
2 the same lawsuit then of multiple defendants? Will they  
3 go for both places in the distribution chain?

4           MS. STEC: No.

5           MS. MICHEL: You can't do that.

6           MS. STEC: And they don't. They don't want the  
7 supplier in. They want us in, and typically the  
8 supplier to the extent that they indemnify us or pay for  
9 our defense, will defend as Ford.

10          MS. MICHEL: Yes.

11          MS. STEC: Rather than jump in themselves as a  
12 defendant or intervene.

1 safety systems, and the plaintiffs view is that we very  
2 actively market safety systems, and it's a bigger factor  
3 in the sale of an automobile than just some small  
4 percentage of the price for that little  
5 accelerometer component. It's a struggle.

6 MS. MICHEL: Carl?

7 MR. HORTON: I would say on the valuation  
8 question because it is so tricky, you could put ten  
9 patent attorneys in a room and you could get valuation  
10 differentials that would be several orders of magnitude  
11 different, and it's partly because they're context  
12 specifically. The value of a patent is truly context  
13 specific.

14 It may be worth X in one environment, one  
15 transaction. It may be worth ten X or a hundred X in a  
16 slightly different one, and I'll give you a perfect case  
17 in point.

18 We had a situation with a business partner of  
19 ours. We happened to hold IP  
20 that was instrumental in their space because we choose  
21 in the end not to do commercialize that because it wasn't  
22 core to our business. They were building a business  
23 model on it, they were new to the space so we allowed  
24 them to do it and we offered them a license under four  
25 patents for a particular value.

1           They came back with something one order of  
2 magnitude less because they just couldn't justify and we  
3 tried to explain why we thought it was worthwhile and  
4 part of that discussion was, look, you've got a  
5 competitor in this space that has better IP than you,  
6 it's very likely that they will sue you, but we couldn't  
7 reach agreement.

8           Six months later they were sued by their  
9 competitor in the way that we had anticipated. They  
10 came back and we coit2000 TD(           9 competitor in the way

1 account on how many times we ship a product with that  
2 feature in it? And the royalty percentage is  
3 drastically different but the total package price is  
4 about the same, but we do what is most economically  
5 feasible, easiest to audit, easiest to track and  
6 account.

7 MS. MICHEL: Do you determine that base first  
8 and then figure the royalty off of that?

9 MR. HORTON: We typically decide what the value  
10 is to the parties. If we disagree, which is  
11 typically the case, on the value, we'll talk about a  
12 royalty based on some structure that we agree upon.  
13 Again whatever is easiest to account for we'll base it  
14 off of that, and then we'll take one step further and  
15 say -- usually they believe it's more valuable because  
16 they think it will drive our sales by a 50 percent  
17 increase.

18 If we think we're going to see a 5 percent increase  
19 then we build that into the royalty structure. If it's  
20 a 5 percent increase as we think, the royalty rate is X.  
21 If it's 50 percent like you think then it's a sliding  
22 scale or some difference in royalty, so that we can  
23 account for the difference in what we think the actual  
24 value is, and then we let the market decide.

25 The market will tell us what it's worth. They

1 have to place some value on our ability to try to  
2 maximize whatever it is we're trying to take to market  
3 but otherwise it's the market that makes the final  
4 decision.

5 MS. MICHEL: Gary?

6 MR. GRISWOLD: One of the things that I think  
7 gets lost sometimes in these discussion about damages or  
8 licenses -- at the end of the day we're looking at the  
9 impact on a P&L, typically, of an operating business unit,  
10 and if you're looking for a forward reaching license,  
11 you're taking an exclusive license and you're going to  
12 add this product to your product line, a heavy driver on  
13 that valuation is certainly what's the value of it in the  
14 marketplace.

15 That's what you're looking at but in the end,  
16 the data converts into a number and a cost in your P&L  
17 and that has to fit into your whole business model of  
18 how you operate so that's an important thing  
19 particularly as you're thinking about bringing in  
20 technology that you're going to take a license under and  
21 then use, put to work and use that advantage in your  
22 product.

23 So, I think, sometimes we lose that perspective  
24 when we're talking about as patent attorneys as opposed  
25 to business people.





1 that little piece of it that went into the product, but  
2 if it's 1 percent of a hundred dollars or 10 percent of  
3 a dollar, it's still a dollar, no matter what increment  
4 I pay on it, so the royalty and the base are fairly  
5 flexible because at the end of the day what you want to  
6 look at is what is the value that you're getting and  
7 what is the consumer ultimately going to be wanting to  
8 pay to get that feature.

9 MS. MICHEL: Do you agree with Carl then that  
10 the base is determined by the convenience of the  
11 accounting?

12 MR. MILLER: Normally, because it's much  
13 easier -- in our case we base it on cases is what we  
14 call it in our business, and a case may be let's say 144  
15 diapers, and so rather than do a per diaper, my  
16 accounting people can do it much better on a case basis,  
17 and so you may set the royalty on that. You may set the  
18 royalty on some other base.

19 I don't think there's good understanding out  
20 there right now or on the Hill that the base and the  
21 royalty rate are the flexible numbers. It's what's the  
22 economic value that the invention brings.

23 MR. HORTON: Absolutely.

24 MR. PHILLIPS: Absolutely.

25 MS. MICHEL: Everyone is agreeing. Richard is

1    noddinġ. Jennifer is noddinġ. Okay. Thank you.

2    That's very helpful.

1 that have always said, well, look I have a patent that  
2 covers this and you owe me a lot of money, so this is  
3 not a new problem I think to any of us. It's problems  
4 that we've dealt with for years. The difference is  
5 that we tend to invest early on in the process and we'll  
6 try to know all of those patents before we even go to  
7 market and we'll either clear them before the product  
8 hits the marketplace or we'll have designed around it.

9 So there's typically not that problem or we'll  
10 know that the patent's invalid because I think most of  
11 our companies have the policy that we will not infringe  
12 another's valid patent, and so we're willing to invest  
13 up-front to make sure that doesn't happen.

14 Now, there are some that may get through that we  
15 don't know about or they're straining the reading about  
16 what their patent could potentially cover, but we've  
17 dealt with that forever, and what we have done is  
18 usually we've gone to court and we've litigated those  
19 issues because we either know the patent's invalid or  
20 we're not infringing.

21 So I really -- maybe the rest of the panelist  
22 can speak to that but I don't see this as a major new  
23 revelation to our industry.

24 MS. MICHEL: You've said you've seen it forever.  
25 Has the frequency at which you've seen it increased at

1 all in the past ten years? Five years?

2 MR. MILLER: At least from my perspective I  
3 haven't seen an increase. I don't know about anyone  
4 else.

5 MS. MICHEL: Jennifer?

6 MS. STEC: Significantly for Ford. At any one  
7 time we used to have two lawsuits, and now it's a dozen  
8 or more of non-practicing entity suits.

9 MS. MICHEL: Is the increase almost solely  
10 attributed to non-practicing entities or is there -

11 MS. STEC: Yes.

12 MR. IRIZARRY: Do you think so? MS. STEC: Yes.

1 they're in the same lawsuits that we are. With respect  
2 to the other automotive companies we've managed  
3 to get along. It's rare that one vehicle manufacturer  
4 sues another. We've found a way to license. It's not  
5 always perfect, not always easy. There are always issues  
6 on value and that kind of thing, but pretty much in the  
7 automotive OEM industry there aren't many lawsuits in  
8 between companies.

9 MS. MICHEL: Carl?

10 MR. HORTON: I would say if I took a long  
11 look over a ten year horizon the frequency has probably  
12 gone up over ten years but what we've seen more of I  
13 think than the change in the frequency is the parties  
14 doing it. What used to be a lot of contingency fee  
15 cases eight years ago may now be traditional troll-like  
16 patent holding entities today, but the fact of the  
17 matter is for us we're a big company. We've always been  
18 a big company so we're always a big target.

19 That's just the way it's played out, so we  
20 haven't seen a dramatic rise in frequency but the  
21 composition of some of those cases has changed.

22 MS. MICHEL: Okay. How has GE responded or any  
23 of your companies responded if at all to that increase?

24 MR. HORTON: Again we've run the economics.  
25 We've lost some big cases. So it's not like we're

1 immune from the problem for sure, but about ten years  
2 ago when we had a big case, the *Fonar* litigation, it  
3 cost us over \$100 million. We went back and we  
4 structurally looked at the whole of the system and the  
5 issue, and we broke it down and what we do today that is  
6 the biggest difference is our clearing processes are  
7 three times better than they were ten years ago.

8 We weren't good enough. We weren't tracking  
9 them well enough. We weren't investing enough on the  
10 front end, and so we redesigned our systems and  
11 redeployed assets to get that front end right. We look  
12 at a lot more patents. We look at them more carefully.  
13 We oppose more patents. We watch them from cradle to  
14 grave.

15 MS. MICHEL: You oppose patents. How do you do  
16 that?

17 MR. HORTON: In Europe we keep a good eye on  
18 them. We'll watch them in the U.S. We'll get our  
19 opinions. We'll do our due diligence. The best  
20 avenue for us is to design around. It's almost always  
21 the cheapest. We can't live with the uncertainty.  
22 We'll either design around it as a first option. If the  
23 price point is too high we'll try to license it in and  
24 usually there's some kind of parallel structure going on  
25 for both of those. Until we know the price, we don't

1 know whether it's cheaper to design around or license  
2 in.

3           If the price is right, we'll license it in and  
4 take that path. If we don't, then we'll design around  
5 but if we can't see a good design-around, then we almost  
6 have no choice but to license it. We'll put structures  
7 in place. If there's any degree of uncertainty around  
8 the patent, we'll even agree to license it subject to  
9 some future resolution. There may be a mediation around  
10 the scope of the claims or an arbitration from some  
11 third-party arbitrator to say what the scope  
12 is and the  
13 value may change on the outcome of that.

14           If it's a pending application, if it's the outcome  
15 of opposition in Europe, what will that determine,  
16 so there's a lot of ways to get at that uncertainty  
17 that's inherent in that dynamic, but we've just found it  
18 so much better to deal with it on the front end, not the  
19 back end.

20           MS. MICHEL: And the design-around cost, is that  
21 something of a cap on what you're willing to pay?

22           MR. HORTON: Absolutely. You get back to  
23 the economic value question, what is it worth? If I can  
24 design for a penny less I'm going to design around, it's  
25 that simple.





1 precedent that we won't be shaken down by a really weak  
2 patent or somebody who thinks they can just hustle up a  
3 quick settlement out of us.

4 MR. GRISWOLD: Going back to your first question  
5 though on this, there have historically been people that  
6 have developed patents that they don't put to use or  
7 that they don't transfer technology and there's an  
8 infringement question, and these patents -- the  
9 secondary market is providing an opportunity for people  
10 to get value, for independent inventors to get  
11 value from their work.

12 So there's another piece to this and there was a  
13 struggle -- all the companies sitting around here have been  
14 around for a 100-150 years or so, and we  
15 were just talking about that the other day when we were  
16 talking about this. But, anyway we're long in the tooth.  
17 We have -- over time, people have come to us  
18 and asked us to take licenses for one reason or another.  
19 This provides a basis to do that. Actually, if it's  
20 handled in an appropriate matter, it can be effective  
21 way to handle rights like this.

22 MS. MICHEL: Steve?

23 MR. MILLER: I'll just add two points because I  
24 think it's on point where we want to go. I think all of  
25 us or most of us feel that an opposition system that we

1     could oppose patents early in the Patent Office would  
2     help get rid of some of that problem, and then if we  
3     could strengthen the examiner's ability to have the time  
4     and the tools to do a better examination job, that we're  
5     not going to see some of these poor patents that are  
6     coming out of the Patent Office.

7             So if there are ways that we can -- this is one  
8     of my big issues -- fully fund the Patent Office so they  
9     keep their money and we get a good examination and  
10    then we have a quick opposition procedure in the first  
11    12 months, a lot of these problems will be solved.

12            MR. GRISWOLD: I would add one point to that.

1 problems that people talked about today.

2 MS. MICHEL: Carl, do you want to add to that?

3 MR. HORTON: Yeah, the only thing I would add to  
4 that is the 18 month publication. I think it would be  
5 worthwhile to know because occasionally there are some  
6 things that we don't see. We tend to pick it up later  
7 than we would like, and that always causes trouble,  
8 especially where our cycle times are more compressed.

9 I mean, for the longer cycle businesses like  
10 aircraft engines and turbines, trust me, we've seen them  
11 plenty by the time that the product hits the street, but  
12 some of these others you have to see them promptly and  
13 if they can be kept secret, then that makes that job a  
14 little more difficult, so having that capability would  
15 be very helpful.

16 MR. IRIZARRY: You know it's been said in other  
17 forums that companies, at least at some level, will not  
18 look at competitor's patents because they were concerned  
19 with willfulness and even though that has changed, the  
20 law has changed a bit there, I take it you've been doing  
21 this for a long time and this was not a concern of  
22 companies such as yours?

23 MR. GRISWOLD: No.

24 MR. MILLER: No.

25 MR. HORTON: No.

1           MR. IRIZARRY:  So you would start a company --

2           MR. GRISWOLD:  That's almost an offensive  
3   comment in my respectful opinion, because the patent  
4   system is about incenting innovation, looking at the  
5   technology that's developed, and then to be concerned  
6   that you have an infringement problem and you're not  
7   willing to look at what other people are doing and the  
8   patents out there?  How can you -- I don't know how you  
9   can defend that.

10           Of course I come from a history of clearance.  
11   We always clear, and we look when we are coming up with  
12   a new product, but also you get ideas to figure out your

1     incent American corporations to spend more money on  
2     research and development, and ultimately that is where  
3     we want to go.

4             The patents are just a tool. What you want is  
5     research and development for better healthcare products,  
6     better turbine engines, better adhesives and sand paper,  
7     for better gasoline and petrochemicals and better and  
8     safer automobiles.

9             MR. GRISWOLD: How about Tide?

10            MR. PHILLIPS: Tide, absolutely.

11            MS. MICHEL: I'm for that.

12            MR. MILLER: If you don't read your competitor's  
13     patents first of all, you're not up on the latest  
14     technological advances, which I can't believe that a  
15     competitor doesn't want to know what their other folks  
16     are doing, plus it incentivizes you to make the next  
17     breakthrough beyond that and to worry about willfulness,  
18     by looking at them I actually avoid willfulness because  
19     I have an opinion, and I know whether the patent's  
20     valid, and then I either design around it or I try to  
21     license it in.

22            So why would I ever be held to be willful when I  
23     know about the patent and I've dealt with it? So the  
24     whole statement to me, at least, doesn't ring true. It's  
25     burying your head in the sand to try to make a problem

1 go away.

2 MR. HORTON: I'll add one caveat to that. Before  
3 *Seagate*, I had concerns over willfulness, not because we  
4 weren't being meticulous in looking at the patents but  
5 because we're such a big organization that my fear was  
6 that a patent that was being handled by one law firm in  
7 city one and a patent that was being handled by another  
8 law firm in city Y that were on similar technologies and  
9 there was no communication but because they both said GE  
10 at the top, there's some expectation that I knew  
11 everything that was going on in those patents.

12 MS. MICHEL: Personally.

13 MR. HORTON: That's ludicrous. Inequitable  
14 conduct still does cause me heartburn and we had to look  
15 at these issues. The more rigorous we try to be on the  
16 clearance side, obviously that's the push back we get.  
17 Every time we have our processes and our tools scrubbed  
18 by the litigators, the outside litigators, they come  
19 back and say, oh, you're creating the potential for this  
20 risk on the other side, but on balance there's no doubt  
21 that the right thing to do -- at least we've made the  
22 call the right thing to do is be more rigorous on the  
23 clearance.

24 MS. MICHEL: All right. Going back to the 18  
25 month publication, you said that helps but you don't yet

1 know the claims when you see that published patent  
2 application.

3 What's your ability to try to predict what is  
4 going to come out of that application and how it might  
5 affect your products and your need for clearance?

6 MR. HORTON: It's decent. There's always some  
7 degree of uncertainty, but they do have parameters from  
8 the prior art, and we can guess those just as well as  
9 the company who filed the patent application. The  
10 drafter had to do through that same exercise.

11 We put our teams to work doing the same thing  
12 and if we can get a design-around that is clear enough,  
13 far enough away from what would be an acceptable  
14 parameter, then we go forward, but otherwise we watch  
15 it, we oppose it where we think it's gone too far or  
16 we may even license it under some conditions.

17 MS. MICHEL: Okay.

18 MR. HORTON: Based on what might take place down  
19 the road.

20 MS. MICHEL: Richard, you were nodding.

21 MR. PHILLIPS: I think Jennifer had her card up.

22 MS. STEC: But you're being your own examiner in  
23 that case so you're really not getting any  
24 predictability out of the Patent Office. You have to  
25 figure it out.



1 MR. HORTON: You have to do your own --

2 MS. STEC: That patent has to sit on top of your  
3 desk for awhile.

4 MR. MILLER: Private PAIR and with other tools  
5 that we've got we know now exactly where that is in the  
6 Patent Office, what stage and we can follow it much  
7 easier because it's an open process, so we kind of know  
8 how things are happening, where everything else used to  
9 happen in secret and we would have no clue.

10 MS. MICHEL: Jennifer, I would think in an  
11 industry that's combining components from different  
12 suppliers that aren't part of your core technology,  
13 that it is a lot tougher though to keep an eye on pending  
14 applications that don't pertain to your core technology  
15 and really pertain to the technology of a competitor.

16 MS. STEC: We don't so much. We rely on our  
17 suppliers to do that and sell us products that are free  
18 from infringement.

19 MS. MICHEL: Okay. Richard, you were nodding.  
20 Do you follow the application in the same way?

21 MR. PHILLIPS: I'm very much in accord with the  
2000 cET1.0sS: I'm very much in accord with the

1 you, we do identify it and track it and it is our job to  
2 predict what is the likely coverage.

3 Sometimes our prediction is this looks like it  
4 could be a problem for a program we've got in place, and  
5 we either reevaluate the program or sometimes we'll go  
6 and take a licensing to a pending patent just to  
7 eliminate the risk. Often, we can say there is no  
8 way you can get a patent from this spec that will  
9 simultaneously be valid and cover what we're doing.

10 And so it's not a real fun job to do but it's a  
11 very important part of our job and the 18 month  
12 publication is truly critical to that. I do worry  
13 about those applications filed in the U.S. only, where I  
14 don't get that opportunity to see what may be pending out  
15 there for three or five or seven years.

16 Those represent a real threat to expensive  
17 R&D, and each year I have to go on a team to justify how  
18 much R&D we're spending, and to the extent I can make  
19 the case that R&D is bringing a return on Exxon's  
20 investment, I'm going to get money. To the extent that  
21 there's uncertainty, unpredictability, risk they're going  
22 to spend less money on R&D.

23 MR. GRISWOLD: Suzanne, one other point on this  
24 is that many companies require that their R&D people  
25 follow the art very carefully because they don't want

1     them reinventing things.  There was a study done -- I  
2     haven't looked at this for awhile, but there was a study  
3     that was done in Europe that at least 40 percent of the  
4     R&D that was done over there was just a repeat of  
5     something somebody had already done.  Think about that.  
6     I don't know what the number is now but you don't want  
7     to have that going on in your lab.

8             And one of the ways that people learn about  
9     these things and know what the direction is, as Steve was  
10    talking about, is to look at the patent art.  That's a  
11    key area for the technology people.

12            MR. IRIZARRY:  In entering into licensing deals  
13    and arrangements with other companies, those terms are  
14    usually confidential, and when you settle esle esle esle esle es

1           MR. MILLER: Well, I think two things you worry  
2 about: One, is your reputation because the first time  
3 you take advantage of an individual or a small inventor  
4 or university, word is going to get around very quickly  
5 that they will not want to deal with you again because  
6 you're going to take advantage of them.

7           So you make sure, and what we try to do is get a  
8 win/win because when we create a partnership with a  
9 small individual that leads to another individual  
10 wanting to come to us that leads to another group so  
11 it's all these networks of collaborative things so you  
12 treat people right and they want to come.

13           As far as not knowing what the terms are, I  
14 think it would be devastating to the industry to have to  
15 publish what our licensing terms are. There are many  
16 times where I know my company is looking at a brand new  
17 product line or a product area and to then have to  
18 publicly state that we're interested in a technology for  
19 this amount of money not only gives our competitors a  
20 competitive advantage that they shouldn't have but it  
21 really hurts I think the process because people may not  
22 be as open in their discussions.

23           I think generally people know again what the  
24 economic value of things that they're going to get from  
25 their inventions, and if you don't, you structure the



1 done.

2 So they're pretty forthcoming and then a  
3 sophisticated negotiation almost always has a most  
4 favored nations clause that kind of brings everyone down  
5 to roughly the same place. Whether I see those terms or  
6 not, I know that a third-party can intervene and take a  
7 look, and we have some degree of comfort that we're  
8 paying what everybody else is paying.

9 MS. MICHEL: Okay.

10 MS. STEC: Being greedy is a double edge sword  
11 because that can come back to bite you in litigation if  
12 you're sued, if you are commanding a high royalty on  
13 something and you get sued on the same product.

14 MS. MICHEL: I see. Okay. Very good. The  
15 recent changes in the patent system through the court  
16 cases such as *KSR*, *MedImmune* and *Seagate* have been  
17 discussed somewhat as weakening patents. Is that your  
18 view of those cases or any one of those cases, how have  
19 they impacted your ability to use patents to both  
20 incentivizes technology, transfer technology and all of  
21 that?

22 MR. GRISWOLD: I'll make a quick comment on  
23 *MedImmune*. I think it's important that people when  
24 they're negotiating licenses be able to do that in some  
25 comfort zone, and so if people had to work out

1 arrangements as it did before and they have to now so we  
2 don't have people suing each other as the discussions go  
3 forward, so that's put more pressure on that dynamic and  
4 so I think that's just one example.

5 Your overall comment, have these cases weakened  
6 the patent system or taken away some of the value? I  
7 think they have. They've all chipped at it one way or  
8 the other. It's moved the balance away from the patent  
9 owner to the infringer unfortunately.

10 MS. MICHEL: Okay. Carl?

11 MR. HORTON: We've had discussions with numerous

1 MS. MICHEL: It is.

2 MR. HORTON: On balance we think we do real  
3 technology. That's why we invest \$7 billion a  
4 year to do real technology, solve real problems so we're  
5 not afraid of a higher patentability standard. A lot of  
6 the lawsuits with the ankle biters as we call them,  
7 people coming after us with random would-be patents, we  
8 think those are questionable so we think it works in our  
9 favor.

10 MS. MICHEL: Steve you nodded.

11 MR. MILLER: I think it's been good from the  
12 standpoint that we're going to see less of these  
13 marginal patents that really contribute nothing to the  
14 technological arts.

15 Now, on the other side of the coin I think the  
16 Patent Office has taken it way too far now and we need  
17 to look at how the examiners are applying the case law  
18 because I think they've swung the pendulum from here all  
19 the way to the other side. One of the reasons their  
20 allowance rate is so low is they've over-applied the  
21 *KSR* case.

22 Almost any mechanical case that you see these  
23 days says that, well, it's a simple invention where you  
24 put two things together, and so I think we've got to get  
25 the Patent Office back to where it should be and then



1 KSR is going to be a good thing for all the parties.

2 MS. MICHEL: Any thoughts about the cases, KSR  
3 or any of the others?

4 MR. PHILLIPS: I'm certainly generally in  
5 accord. I think most of these are incremental changes  
6 Rather than radical, and they have not had a  
7 profound impact on our practice. Also significant, you  
8 have to pay attention to them but they weren't profound  
9 problems.

10 MS. MICHEL: Okay. Great. Thank you. We're  
11 just about out of time. Would any of the panelists have  
12 any last points you would like to make and we'll wrap  
13 up?

14 Hearing none I will thank you very kindly. This  
15 has been a very interesting and helpful discussion for  
16 us and thank you for participating. We'll be back in 15  
17 minutes to talk about the Life Sciences Industry.

18 (Whereupon, a brief recess was taken.)

19  
20  
21  
22  
23  
24  
25

1     PANEL 4:   LIFE SCIENCES INDUSTRIES

2     MODERATORS:

3     SUZANNE MICHEL, FTC

4

5     PANELISTS:

1 intellectual property counsel for Wyeth and Infinity  
2 Pharmaceuticals before joining Hydra Biosciences.

3           We have Steve Jensen who is a partner  
4 in the Orange County office of Knobbe Martens Olson &  
5 Bear where he works on intellectual property litigation,  
6 negotiation, licensing and strategic counseling matters  
7 with clients in a wide range of technologies including a  
8 large portion of his work in the medical device  
9 industry.

10           We have Jeff Myers, who is Vice President and  
11 Assistant General Counsel for Intellectual Property  
12 Enforcement for Pfizer where he manages all of Pfizer's  
13 worldwide patent litigation. He's also drafted and  
14 prosecuted patents in chemical and in biotechnology arts  
15 for Synaptic Pharmaceutical Company, and he was a patent  
16 attorney at Fitzpatrick, Cella, Harper & Scinto before  
17 joining Pfizer.

18           We have Maggie Shafmaster, who is Senior Partners

1 Group and co-chair of the Life Sciences Industry Group  
2 at Wilmer Hale, and he's focused on the life sciences  
3 industry for three decades.

4 MR. SINGER: 1978.

5 MS. MICHEL: He serves as counsel in the  
6 life sciences sector including biotech medical device  
7 and pharmaceutical companies. His practice focuses on  
8 joint ventures, strategic alliances, corporate and  
9 securities law, public offering, venture capital  
10 transactions involving the biotechnology and other life  
11 sciences industries.

12 Thank you all very much for joining us today. I  
13 think you can see that we have people coming at these  
14 industries from different perspectives, start-ups, big  
15 companies, medical devices, biotech, pharma and I think  
16 we'll have a very interesting discussion.

17 I would like to start with just a broad general  
18 question to allow each of the panelists to tell us a  
19 little bit about your company or your  
20 clients, and how your company or clients use patents  
21 primarily, why patents are important and why you were  
22 willing to very generously give us your time today to  
23 talk about this topic. Maggie?

24 MS. SHAFMASTER: Thank you. Thank you very much  
25 for having us and thank you for giving me this

1 opportunity. Actually I'm looking forward to talking a  
2 little bit more about Genzyme and what we do because I  
3 think we have a unique business model in terms  
4 of where we started and where we've ended up and in  
5 hearing about that, you'll understand why patents are so  
6 important to us.

7 We are now a global biotechnology company  
8 dedicated to making a major positive impact on the lives  
9 of patients with serious unmet medical needs.

10 We started as a very small start-up in 1981 and  
11 we've since then grown to a large enterprise with more  
12 than 11,000 employees bringing services and therapies to  
13 patients in more than a hundred countries around the  
14 world.

15 We are technology agnostic. We don't do just  
16 small molecules or just biotech proteins. We also have  
17 diagnostic and genetic testing services, cell therapies,  
18 bio materials, and a lot of research efforts in gene  
19 therapy.

20 The diseases we target are also diverse,  
21 including rare inherited disorders, kidney disease,  
22 orthopedics, cancer, transplant and immune disease. We  
23 have a substantial investment in these diseases as well  
24 as neurodegenerative diseases, cardiovascular disease,  
25 *et cetera*.

1           Throughout our history we've partnered with  
2           universities, research institutions and private  
3           companies in order to find and develop products  
4           and bring them to market. We consistently spend about  
5           20 percent of our revenues on research and development.  
6           That has allowed to bring us to patients first-in-  
7           class therapies addressing serious unmet medical needs  
8           at an average rate of about one new therapy per year  
9           over the last six years.

10           In 2003, we launched two new products Fabrazyme  
11           and Aldurazyme. Both of these products were the first  
12           therapies ever approved in the United States to treat  
13           these very rare, often fatal genetic disorders. In 2005  
14           we launched Clolar. It was the first new leukemia  
15           treatment approved specifically for children in more  
16           than a decade.

17           In 2006, we launched Myozyme, the first treatment  
18           ever approved for Pompe disease or for any inherited  
19           muscle disorder. The lists go on and on.

20           And of these products, seven in the last six  
21           years, five are protected, at least in part, by  
22           intellectual property that we've licensed in from  
23           universities and two were based on IP that was developed  
24           either by Genzyme or by another company that we  
25           acquired.

1 In 2007, Genzyme was chosen to receive the  
2 National Medal of Technology which is the highest honor  
3 awarded by the President of the United States for  
4 technological innovation.

5 So needless to say, our primary use of patents  
6 in the marketplace is to protect our products for a  
7 period of time sufficient to ensure that we're able to  
8 continue to innovate. As everyone here knows  
9 biotechnology is a very risky business. It's very

252 5 within the industry and the government. We need to have a strong regulatory system.

21 6 6 15 w modern, we're making good investments in research and development. The historical

22 nesly in 2007, we've made a lot of progress in developing new products. We've even

23 8 5 13 T a product is a major step in the development of a new drug. It's a big

2 also help to reduce the cost of drugs. We've made a lot of progress in developing

1 out-licensing of patents generally around research  
2 tools, and we non-exclusively license third-party  
3 patents usually just for freedom to operate purposes.

4 We take great care in our freedom to operate  
5 searches. We thoroughly analyze all of the patents out  
6 there. We keep an eye on third-party patents and what's  
7 happening with them, and we make sure before embarking  
8 on development pathways that we will have all the rights  
9 we need.

10 MS. MICHEL: All right. Thank you very much.  
11 Steve?

12 MR. JENSEN: Thank you for inviting me here.  
13 First, I ought to mention that since I'm not here from  
14 any particular company or representing any particular  
15 client, I need to state that the views I express are not  
16 those of my firm or of any particular client. They're  
17 my views and shouldn't be attributed to any given matter  
18 that we have going on.

19 I have to be careful about that. Although I don't  
20 have any particular company to give the views of, I  
21 can tell you a little bit of where I come from and where  
22 my views come from. I'm an electrical engineer by  
23 trade, turned lawyer and originally started representing  
24 companies principally in the giant technology computer  
25 industry.



1           Shortly after I started practice, I became  
2 exposed to what we call life sciences, and in my case,  
3 mostly medical device technology companies involved in  
4 improving medical monitoring or other types of things.  
5 I quickly turned most of my attention to those types of  
6 clients as I found them much more interesting, and a  
7 large portion of my practice has therefore been taken  
8 over by that particular segment of the market.

9           I've represented companies, to give you an idea  
10 of where my views come from, just to name a few, pulse  
11 oximetry -- one of which we saw this morning in Joe Kiani  
12 and Masimo and the Chairman of the MDMA -- noninvasive  
13 blood constituent monitoring of all different types,  
14 glucose monitoring companies, ultrasound imaging,  
15 cardiac output measurements, respiration rate,  
16 interventional cardiology, refractive surgery, medical  
17 lasers, corneal surgery, infusion pumps and something  
18 that's going on quite frequently today which is the use  
19 of semiconductors in diagnostics where you  
20 might put a drop of blood on a semiconductor and it will

1 invest heavily in this technology much like a drug  
2 company would. There's a great deal of runway to get  
3 these products to market, to make sure they don't hurt  
4 patients, number 1, and then to make sure that they do  
5 good. The early stage companies in this arena will  
6 spend usually at least 10 percent of their R&D spending on  
7 protecting that technology through the patent system.

8 Their spending on intellectual property actually  
9 goes up as they get closer to product release and start  
10 looking for clearance information, which they start very  
11 early in the process. Most of these companies will  
12 start that very early in the process to try to  
13 understand the patent landscape, what they have to deal  
14 with, what else is out there and do what the system is  
15 designed to do which is to foster the innovation and  
16 encourage the innovation.

17 I think it's pretty important to note that our  
18 constitution recognizes that patents were put into place  
19 to encourage innovation, and that's what they have done  
20 in the medical device world. It gives my clients the  
21 confidence to know that they can invest in the  
22 technology, that they can raise money in the technology,  
23 that they can make business decisions and move forward  
24 with the technology.

25 If you think of the list of technologies and

1 there's been many more that I've worked in, how many of  
2 us haven't been touched by one of those technologies or  
3 many of them improving our medical care, and in many  
4 cases making medical care less expensive and better and  
5 bringing things to improve our lives.

6           So that's what my clients use them for is to  
7 protect. Now sometimes they're also defensive. They  
8 may be acquired or licensed-in, because there's a  
9 particular area in the clearance process that we find a  
10 stumbling block or a thorn, and we evaluate those much  
11 like the last panel spoke in determining what -- where  
12 the problems are. We look at those and figure out  
13 which ones will cause a problem and which ones won't,  
14 and some we purchase. Some we license in, and some we  
15 believe are not a problem and we go forward and provide  
16 those clearance matters, so that's what my clients use  
17 them for.

18           I think any adjustments to the system have to be  
19 done very cautiously. There's been a lot of talk today  
20 about the changes in the law. I'm not sure that we  
21 know what those are going to entail just yet because  
22 they haven't been there long enough, but certainly I  
23 think there's one thing that I've noted since I've been  
24 in practice for almost 20 years, and that is that since  
25 1982 when the Federal Circuit was put into place, I



1 discovery is very, very expensive. It's also time  
2 consuming and unpredictable. So, just as a little bit of  
3 a benchmark typically one out -- only one out of  
4 thousands of compounds will be proven to be both  
5 medically effective and safe enough to become an  
6 approved medicine.

7 That can take a long time to show to the FDA and  
8 other agencies. It could be ten years from discovery to  
9 approval, and after all of that, a product that receives  
10 regulatory approval may not achieve commercial success.  
11 Exubera being one example if people are familiar with  
12 that.

13 So in this context, innovation by our R&D  
14 operations and strong patent protection for that  
15 innovation is critical to the company's success. Our  
16 innovations come from a lot of sources: Internal  
17 research, contracts with third parties, collaborations  
18 with universities and biotech companies and with other  
19 pharmaceutical companies.

20 We also seek out promising compounds and  
21 innovative technologies by third-parties to incorporate  
22 into our discovery and development processes as well as  
23 our product lines through acquisitions and other  
24 arrangements.

25 So given the challenges and risks inherent in

1 the drug development process, strong IP protection for  
2 innovation both here in the United States and abroad is  
3 critical to our success. So, to put a sharp point on the  
4 issue, our business model is highly dependent on our  
5 ability to obtain injunctive relief to prevent copies of  
6 our medicine from being sold in violation of our  
7 exclusive rights. So if you're a generic manufacturer  
8 we want you to stay out of our front yard as long as  
9 possible.

10 So as already noted we are a licensee, more  
11 frequently a licensee than a licensor, and we are an  
12 acquirer of IP rights. Not all acquisitions are as big  
13 as the one that's being contemplated right now, but if  
14 you look at your 10-K, you will see that just in the  
15 last year we acquired several companies for different  
16 amounts of money. I mean, \$300 million or a couple  
17 hundred million dollars is on the scale of what would be  
18 a normal acquisition for us.

19 So because we are a licensee and we use a lot of  
20 IP both in connection with our products and also with  
21 the processes for developing and making those products,  
22 we're not only a plaintiff, although usually a  
23 plaintiff, but sometimes we're a defendant in patent  
24 infringement actions.

25 And I think I just want to stop and move on to

1 the questions that Suzanne has posed to the groups with  
2 the note that we're very keenly aware of the need for  
3 balance in addressing the needs of different innovative  
4 industries that we've been hearing about, technology,  
5 universities, pharma, and the diversified products  
6 companies. I think it's interesting that virtually  
7 everybody who has come in here who has basically been at  
8 this for a long time says, let's be careful, let's not  
9 be afraid to act but let's be careful in crafting  
10 legislative solutions for everybody that don't  
11 necessarily leave any one industry short changed.

12 MS. MICHEL: Thank you. Steven?

13 MR. SINGER: Like the other Steve, I'll make the  
14 statement that my views are my own, not the firms or any  
15 clients, and I'll also make the statement that unlike  
16 everybody else on the panel here, I'm not a patent  
17 lawyer. I'm a corporate lawyer, so I approach  
18 things with a different perspective.

19 I've worked with companies in the life science  
20 sector almost exclusively for about 30 years, as you  
21 said, and I've had a substantial opportunity to observe  
22 these companies and really get a sense of what makes  
23 them tick. What does it take to discover a potential  
24 drug, to test it in extensive clinical trials, to try to  
25 launch the produce in competitive markets, to try to

1 deal with generic competitors, to finance the heavy  
2 costs involved at all stage.

3 The process and the financing part is where I  
4 get most involved. I work with a broad span of  
5 companies so the views I have are influenced by that. I  
6 work with professors at universities who have an idea  
7 but not much else, with early stage companies who are  
8 trying to raise financing, with mid-stage companies  
9 that are moving forward with potential products, that  
10 are seeking to raise capital to develop these products,  
11 of course today in a very difficult financing  
12 environment, with more mature biotech companies getting  
13 ready to launch products, with pharmaceutical companies  
14 that are seeking to access the pipelines of some of  
15 these biotech companies, and finally with the financing  
16 sources, companies like venture capital firms,  
17 investment banks and the like.

18 There's one clear and consistent message. I  
19 think you've heard that from everybody today but it's  
20 particularly true in life science, and that is without a  
21 strong vibrant and productive patent system, a very  
22 strong patent system there won't be a biotech industry.

23 When investors are considering making an  
24 investment in a biotech company, the very first  
25 diligence item they face after they look at the science



1 is the patent position.

2 When a pharma company is exploring a potential  
3 collaboration with a biotech company, if there's no  
4 strong patent position, it's simply not going to happen.  
5 This focus on patent protection is not irrational.  
6 It takes ten years or more of sustained substantial  
7 effort and investment to develop a drug from concept to  
8 market.

9 The average cost -- independent sources estimate  
10 that it's over a billion dollars per drug. Most  
11 promising drugs, as Jeff said, fail along the way, and  
12 when a drug is finally approved, after all those years,  
13 a good chunk of the patent life is already gone and  
14 generic competitors are chomping at the bit to  
15 interfere.

16 So when you consider the fact that we're  
17 addressing an industry today that develops products that  
18 are life preserving, life saving, that's incredibly  
19 productive. It's considered to be one of the most  
20 productive, the best in the world, employs hundreds of  
21 thousands of people and has the prospect for increasing  
22 employment when you think about bio fuels and everything  
23 else. I think we just need to be really careful and  
24 cautious when we make changes to the patent system that  
25 may impact the industry negatively.

1 MS. MICHEL: Thank you. Christine?

2 MS. BELLON: So unlike a lot of the other  
3 companies that you've heard from today, Hydra  
4 Biosciences is probably a new name to a lot of you so I  
5 appreciate the opportunity to come talk about Hydra and  
6 about Hydra's views on patent reform.

7 Hydra Biosciences is a private venture-based  
8 company in Cambridge, Massachusetts. We're trying to  
9 develop drugs against a class of ion channels called the  
10 TRIP ion channels. Ion channels regulate the flow of  
11 ions across the cell membranes so this affects things  
12 like nerve impulses, muscle function and cardiac  
13 function.

14 In the past the ion channels were hard to design  
15 drugs against because a lot of the ion channels are  
16 homologous which means they look alike and act alike, so  
17 if you tried to develop something that hit one ion  
18 channel you could inadvertently affect another ion  
19 channel such as the one that controls cardiac function.

20 The trip ion channels are a new class. They  
21 were discovered ten years ago, and what makes them  
22 special is that they're not homologous to other ion  
23 channels and they're not that homologous to each other,  
24 so you can selectively target one trip ion channel and  
25 not other ion channels, so you can do



1 MS. BELLON: Well, some of the IP for Hydra  
2 actually started because we licensed-in some technology  
3 from a university. This is kind of typical of how a  
4 lot of start-ups, especially in the Boston-Cambridge  
5 area, get started. So we licensed in some technology  
6 from university, but Hydra was very forward  
7 thinking in that as soon as they started doing research,  
8 they also started building their IP portfolio because  
9 they knew -- I wasn't there at the time but they knew  
10 that that was going to be the value driver for the  
11 company.

12 So it started -- almost the moment that research  
13 starts, they started building the IP estate.

14 MS. MICHEL: All right. And other early-stage  
15 technology, Steve, can you talk about these very early-  
16 stage developments and how the IP plays in there?

17 MR. SINGER: Sure. The way products typically  
18 get developed is you have an idea that comes in from a  
19 university, a professor as I mentioned who has a  
20 particularly good idea, and the university licensing  
21 offices works with venture capital firms or angels in  
22 some cases, but more likely venture capital firms, and  
23 the crux of the transaction is in licensing of an  
24 interesting patent estate.

25 And without that patent estate there's really

1 nothing for the venture firm to make an investment in,  
2 and that's how these companies get started so Hydra is  
3 very typical.

4 MS. MICHEL: Christine, can you talk about  
5 how a start-up keeps building its patent portfolio? You  
6 don't just stop with those first patents, from  
7 the professors, do you? As you continue to develop new  
8 technology how important is it to keep patenting?

9 MS. BELLON: It's important for everyone I think  
10 in the life sciences. I think it's particularly  
11 important for small companies like Hydra. One of the  
12 advantages that Hydra had is Hydra is a pioneer in the  
13 trip ion channel field, so because Hydra was one of the  
14 first companies researching these trip ion channels,  
15 there was essentially a lot of IP space and so we were  
16 able to build a really strong portfolio around this  
17 space.

18 MS. MICHEL: This concept of there being a lot  
19 of space, how important is that in thinking about where  
20 to put the money, where to do more research?

21 MS. BELLON: It's important, and I think a lot of  
22 us have the same view that we would not invest the hundreds  
23 of millions of dollars into developing a new drug, if we  
24 didn't think we had clear IP space. If we thought there was  
25 going to be an FTO [freedom to operate] problem, we



1           I think the courts have always  
2 recognized that pioneers deserve broad patent  
3 protection, but you have to balance that against the  
4 need for a fair disclosure of what it is you've  
5 really invented, and when you have arts where the  
6 terminology and maybe the technology are fairly  
7 immature, which I think is frankly the case with the  
8 software industry and the semiconductor industry, you  
9 know you have people grappling, trying to get as much as  
10 they can, working with terms that not everybody agrees  
11 on and tests that not everybody knows how to perform.

12           And so I think you have to be willing to live  
13 with that a little bit, and I guess my view, jumping all  
14 the way towards the later parts of your  
15 questions about how do these cases affect that -- a lot  
16 of times we see a case come down, and it doesn't look so  
17 great at first glance and we all freak out and run  
18 around and say this is the end of whatever.

19           And then we watch while the courts who have a  
20 lot of common sense develop these doctrines, so I think  
21 sometimes we're in a hurry for certainty. Businesses  
22 are in a hurry for certainty. We look at court cases  
23 and we think, "oh no, now it's uncertain" and we have to  
24 kind of work through that.

25           I think what you see when you have a lot of

1 space in a particular technology is that it can be  
2 difficult and time consuming and a bit of sausage making  
3 to watch the courts and the companies and the government  
4 try to figure out what to do with it.

5 MS. MICHEL: Okay. Steve?

6 MR. JENSEN: I think that raises an issue of  
7 something that's come up earlier in the day which is the  
8 notion of the continuation practice in patent  
9 applications. It's very hard, particularly when it's a  
10 pioneering technology and my clients are principally --  
11 I'm not a chemist so it's not the drugs. It's the  
12 devices.

13 These are technology devices. They're software.  
14 They're computers. They're sensors. They're  
15 semiconductors, catheters, things that you can hold, and  
16 you're not always sure right when you start. A lot  
17 of these start-up companies don't even have the funds to  
18 try to figure out or pay their patent lawyers enough to  
19 figure out exactly where that fence can properly be  
20 drawn.

21 MR. MYERS: Especially those lawyers at law  
22 firms.

23 MR. JENSEN: So the continuation practice, is  
24 particularly important for those start-up companies so  
25 as the portfolio develops, they can craft it so that it



1 properly covers the space as opposed to, oops, we  
2 stepped a little over here and captured the prior art  
3 because we were a little too broad or we were too  
4 narrow. We only captured precisely what we were doing  
5 but everybody can do exactly what they're doing without  
6 stepping on the patents.

7 So the continuation practice, which has come up a  
8 few times through the day, is critical for developing  
9 that portfolio, as the client, as the company learns  
10 really what is the protectable space.

11 MS. MICHEL: Interesting. Do any of the other  
12 panelists have comments on this concept of the  
13 importance of continuations in protecting the space  
14 outside medical devices? Does it come up for  
15 chemical, biotech? Do you face the same kind of  
16 problems? Jeff?  
22 patent applications.

17 MR. MYERS: Yeah. I think we see that and we  
18 see that when we're trying to evaluate technology,  
19 trying to figure out whether we have freedom to operate  
20 in a particular area. One of the things I think that  
21 has offset that to a degree is the publication of U.S.  
22 patent applications.

23 And as one of the earlier -- one of the

1 reasonably be granted out of a specification. I  
2 have to tell people internally at Pfizer all the time,  
3 there is no such thing as a risk-free path. You just  
4 have to figure out what the big risks are, what risks  
5 you can address and what risks you just have to live  
6 with.

7           So, a continuation process creates some  
8 uncertainty, but by the same token it is probably better  
9 than forcing companies to either give up too  
10 early or to unduly narrow their patent claims versus  
11 forcing the Patent Office into a position where they're  
12 either not granting anything or they're letting things  
13 out that are too broad. So again with continuation  
14 practices it's babies with the bath water.

15           MS. MICHEL: Maggie?

16           MS. SHAFMASTER: I would just like to agree and  
17 expand a little bit. Continuation practice is  
18 extremely important because at the time that you're  
19 filing your original application, this is work that's  
20 being done at the bench. You may have some in vitro  
21 studies and a few animal studies, but it's years before  
22 you would even get into your first human patient, and  
23 then continuous years through your clinical trials. And  
24 all that time you're learning more about the drug and  
25 how it works and how to formulate it and how to dose it,

1 and the continuation practice allows us to ultimately  
2 come out with stronger patents that are more  
3 specifically directed toward the final product, and  
4 stronger patents means more certainty. It means less  
5 risk and it means we're more likely to invest in that  
6 product.

7 With regard to the criticism of continuations  
8 that you don't know what someone is going to claim and  
9 therefore, there's no way to clear them, we don't seem to  
10 have that problem. I think we're very capable of  
11 reading a specification and being able to tell what kind  
12 of claims might come out of that specification.

13 There may be some uncertainty about changing  
14 standards at the Patent Office in terms of what's valid  
15 or what's patentable, but in terms of the scope of what  
16 that specification will support, we don't see an issue  
17 with that.

18 MS. MICHEL: Okay. And how is your ability to  
19 assess what patents are out there that you will need to  
20 license in or deal with in order to get freedom to  
21 operate?

22 MS. SHAFMASTER: So, when we do a patent  
23 clearance search, we look at granted patents but we also  
24 look very closely at pending applications, and the  
25 question is not what claims are in that application, the

1 question is what claims could that specification  
2 support.

3 MS. MICHEL: Okay.

4 MS. SHAFMASTER: Could they write a claim that  
5 would cover us?

6 MS. MICHEL: Do you have any concerns about the  
7 ability to interpret the claims predictably? Claim  
8 interpretation has been called a very unpredictable  
9 process in a lot of industries, 50 percent reversal rate  
10 and that sort of thing.

11 Is that a concern that you face when you're  
12 thinking about where to invest money and what kind of  
13 freedom to operate you need? Christine?

14 MS. BELLON: It is a concern but I want to point  
15 out that you don't get faced with an issued patent and  
16 then have to wonder how those claims are going to be  
17 interpreted. The vast majority of applications  
18 nowadays, the prosecution history is available on Public  
19 PAIR so you can go into any pending application and look  
20 to see how the applicant himself or herself is in fact  
21 defining the terms in the claim.

22 So you get a lot of guidance as the application  
23 is going through the Patent Office on how both actually  
24 the PTO and the applicant are going to interpret those  
25 claim terms.

1           MS. MICHEL: Okay. And once the patent issues,  
2           are the doctrines surrounding claim interpretation  
3           satisfactory, at least in the biotech industry, to have  
4           some confidence in how a court might interpret those  
5           claims and be able to identify those claims that you  
6           need to deal with? Jeff?

7           MR. MYERS: Yeah, I think that the uncertainty  
8           around -- or the notion that there's a lot of uncertainty  
9           around the scope of issued patent claims, echoing what  
10          Christine said, to the extent that's out there, I  
11          suspect it's probably overblown.

12          We also have not just the file histories now but  
13          we also have *Festo*, which really provided some clarity  
14          about what you can do with the file history, so I'm  
15          thinking back a few years ago to the *Purdue Pharma* case  
16          where they reached back into the specification in a  
17          continuation and pulled out basically an example and  
18          wrote claims around it, and the Federal Circuit said,  
19          "No, no, no, that's not an invention."

20          So there are cases where companies have frankly  
21          overreached in trying to say, "Oh, somebody else is out  
22          there, we want to try to capture them," we still have a  
23          continuation pending so we're going to go back and write  
24          our claims to cover these guys by straining, turning  
25          this example which was not -- clearly not part of the

1 invention *per se*, we're going to turn that into a claim.  
2 The court said, "wait a second, this isn't correct,  
3 this is not an invention," so out goes your patent.

4 So I think there's enough case law out there to  
5 give us sufficient guidance. Like I said it's never a  
6 matter of having zero risk. You start with the granted  
7 patents, and then you move along the spectrum to  
8 the things which are less and less clear, and therefore  
9 at some level you have to accept they present a less  
10 clear risk -- so you're going to value those as a  
11 bigger risk.

12 MS. MICHEL: Maggie?

13 MS. SHAFMASTER: I was just going to say there  
14 is some uncertainty. There's always some uncertainty  
15 that the court might not come to the same interpretation  
16 that you've come to, and that plays into risk and how  
17 much risk you're willing to accept, and that plays again  
18 straight into your models of what's the value here, and  
19 how much am I willing to invest given this level of  
20 risk.

21 MS. MICHEL: Do you have any thoughts on how to  
22 improve that situation? In an ideal world  
23 wouldn't patents be predictable -- we take the patent,  
24 look at it, here's what it covers? I know as a business  
25 how to react. Is that something to be strived for, and

1 if so, do you have any thoughts on how to move in that  
2 direction?

3 MS. SHAFMASTER: Well, throughout the years -  
4 there was a time a few years ago when people thought the  
5 case law was pretty clear about claim interpretation and  
6 whether or not it was permissible to read limitations  
7 from the specification into the claims. Then things  
8 changed again, and now I think the seminal case on the  
9 issue didn't give a whole lot of guidance.

10 So, again it just kind of comes down to what is  
11 your gut telling you that a court's going to do with  
12 this, and if you're really not sure, are you willing to  
13 accept that risk.

14 MS. MICHEL: And you're referring to the  
15 *Philips* case?

16 MS. SHAFMASTER: Yes.

17 MS. MICHEL: Steve?

18 MR. JENSEN: When we talk about predictability,  
19 and the reversal rate, I think they're not  
20 necessarily exactly tied. When jurors were deciding  
21 claim construction, we had very little ability to  
22 predict what the construction of the claim was going  
23 to be at the end of the day -- less than we have today,  
24 and so it may not have been reversed by the appellate  
25 court because there was more deference given. There was





1 searches, we will review -- potentially thousands of  
2 patents come up on our searches that we'll take a look  
3 at to make sure they're okay. I don't know that we've  
4 ever had to contend with hundreds of thousands, if  
5 that's really what they're contending with, but we're  
6 willing to put in a lot of effort because by the time we  
7 get to market, if we've got a freedom to operate  
8 problem, that's not a problem you can get around by  
9 designing around.

10 There's way too much money and time invested to  
11 find out you have a problem that late, so we have to do  
12 that work, and we do that work.

13 MR. ADKINSON: Jeff?

14 MR. MYERS: Yeah, we do extensive freedom to  
15 operate work on projects as they're ongoing. Typically  
16 when a compound is sort of nominated to be a clinical  
17 candidate, then the level of that work goes up, but I  
18 think honestly to be fair to our IT colleagues, their  
19 product life cycle is much faster so we have more time  
20 to do those FTO searches, and of course we talk about  
21 how much it costs to get a drug to market.

22 Most of those costs, the greatest  
23 proportion of those costs are in the large scale  
24 clinical trials, and so we don't have this huge  
25 bolus of money dumped into a project at the beginning

1 and then ten years later we find out if we get approval.

2           It's sort of a continuous investment that goes  
3 up and up and up, so we have the luxury, if you will,  
4 while even though our patents are running down, we get  
5 term extension. There are various mechanisms for  
6 addressing that. I think they're very effective in the  
7 pharmaceutical industry, but I don't think generally for  
8 small molecules, we're not looking at thousands of  
9 patents.

10           We may be looking at a couple dozen. We have  
11 time, and the amount of money invested in a single  
12 project and product is substantial enough to justify a  
13 bigger investment in that FTO effort. On the other  
14 hand, if you're developing a product, and you're already  
15 taking a hundred licenses to various components, and  
16 you're thinking, well, now I have to go out and look at  
17 500 more patents, there's a risk benefit ratio in that

1 which really are computers in many respects, there can  
2 be very, very large numbers of patents that have to be  
3 looked at, and we have processes that we can go through  
4 to funnel those down to the point where we get them to a  
5 point where they are the ones we think we are looking at  
6 the right ones.

7 I think that the main difference in that  
8 technology and the IT space from the panel earlier today  
9 really has to do not so much with the sheer numbers but  
10 to do with the time period of the duration of the  
11 market. It's a much shorter life cycle for those  
12 products.

13 And so even though we may have just as many  
14 patents to look at, with my clients that are in the  
15 medical device sector, there is usually -- it's a  
16 stickier product. It has a longer life cycle. It  
17 doesn't change as quickly because of many of the  
18 regulatory and other issues that touch the medical  
19 device industry.

20 MS. MICHEL: Steve, is the timing, the  
21 development timing also -- the time that it takes to  
22 develop the product also important?

23 MR. JENSEN: That timing gives you the runway to  
24 do the clearance search. Even if there are thousands of  
25 patents to look at, you don't have to read all of the

1 thousands of patents. You might look at abstracts at  
2 one level. You might pull 20,000 patents and look at  
3 abstracts, that's a paragraph you're looking at and then  
4 you look at -- drill down a little bit deeper, maybe  
5 look at the pictures. But, that ramp gives you more time  
6 to do the clearance work that needs to be done in the  
7 medical device area.

8 MR. SINGER: Same in the biotech. It's not an  
9 optional thing to check out very carefully the patent  
10 landscape. It's more mandatory. I'm not aware of any  
11 companies that don't undertake that review, and I don't  
12 think the boards of directors of small companies would  
13 permit them to go forward unless they were doing that in  
14 a very vigorous basis.

15 MR. JENSEN: Neither will the venture  
16 capitalists.

17 MS. SHAFMASTER: Just one last point about doing  
18 the clearance as development occurs is a very important  
19 one because you can in the beginning just look at the  
20 patents around the protein. At that point, you're not  
21 really sure how it's going to turn into a product, and  
22 then as the scientists start figuring out well this is  
23 the expression system we want to use to express it, then  
24 you can start clearing those patents.

25 Then this is the way we think we want to

1 formulate it, and then you can look at those patents so  
2 it is much more amenable to staging than having  
3 everything all of a sudden at once you have to clear the  
4 entire product and every step you used in manufacturing  
5 it.

6 MS. MICHEL: Christine?

7 MS. BELLON: I want to add one thing. It's not  
8 always the most fun to do an FTO analysis, but it's also  
9 an incredibly rich sources of information. First of  
10 all, I'm not sure if I told the scientists in my company  
11 to stop looking at the patent literature that they would  
12 because that's where they get a lot of their ideas.

13 As you're looking at other company's published  
14 patent applications in the same fields, you get a lot of  
15 new ideas how to innovate your own research. So, while we  
16 do it to protect ourselves from a legal point of view,  
17 it's also really helpful to the scientists to see what  
18 other companies are doing.

19 MS. MICHEL: Do you have a question?

20 MR. ADKINSON: One quick one for Steve. Because  
21 your devices are -- of your clients tend to involve high  
22 tech issues, do you get non-practicing entity suits more  
23 so than some of your colleagues might here?

24 MR. JENSEN: I think it's more common in the  
25 medical device arena than it would be in the pharma and



1 see an attack by an area that really has to do with a  
2 technology in the microprocessor, and I would  
3 say that properly belongs in a dispute with the  
4 microprocessor company, not the medical device company.  
5 But those entities do come after -- it's just  
6 started so they're coming after the medical device  
7 companies. We've been able to deal with them I think  
8 fairly effectively, but they are occurring and they're  
9 increasing.

10 MS. MICHEL: Why? Do you have a theory on why  
11 they're going after the device manufacturer, not the  
12 microprocessor manufacturer?

13 MR. JENSEN: I don't have a theory. I think  
14 it's just another target that has developed and the  
15 realization that there are competitors out there in the  
16 medical device world so there's another target to go  
17 after. It isn't a new problem.

18 There have been various ways that these leftover  
19 patents so to speak get asserted to try to obtain some  
20 value from them after a company has failed or they have  
21 not seen at the technology make it to market. There are  
22 just different avenues, and I think the system can get  
23 skewed a little bit -- if you can choose  
24 a path of enforcement that will lead to uncertainty, if  
25 it can lead to uncertainty, then maybe you can obtain

1 more value out of those patents than someone would  
2 normally anticipate.

3 I think that most companies in the medical  
4 device arena are simply fighting those and succeeding.  
5 I've been involved in several where at the end of  
6 the day the cases are just dropped and with no payment  
7 at all.

8 MR. MYERS: Put another way, once you payoff the  
9 blackmailer it never stops. So, you do have to make some  
10 choices about going to court with some of these people.

11 MS. MICHEL: Is this a matter of establishing  
12 reputation of a company as a fighter? Is that a  
13 conscious decision? If it's possible to settle for less  
14 than it's going to cost to litigate, what's the  
15 decision process there in fighting?

16 MR. JENSEN: Many medical device companies will  
17 not evaluate it in that sense. They will evaluate it in  
18 a sense of: Is it a meritorious claim, and if it is  
19 not, most, if they have the resources, will fight it  
20 through. They will not withstand being held up.

21 MR. MYERS: I'll add one more comment because I  
22 was here for the panel on injunctions, and there was the  
23 analysis by -- was it someone from Sidley? I'm trying  
24 to remember who gave the analysis, but the courts -

25 MS. MICHEL: Yes.



1           MR. MYERS:  -- if you look at the analysis of  
2 cases involving injunctions or a request for  
3 injunctions, courts have not been that friendly for the  
4 sort of quintessential non-practicing entity.  They  
5 don't get injunctions that often, and I think it's for a  
6 lot of these reasons.

7           MS. MICHEL:  Okay.  Has that affected -- Steve,  
8 have you noticed whether eBay has affected the frequency  
9 of suits or the amount of settlements or the extent to  
10 which a company will fight?

11          MR. JENSEN:  I think it has given an added  
12 number of companies -- there's varying levels of risk  
13 aversion in different clients and some can take more  
14 risk than others.  They're just more comfortable with  
15 more risk.  I think since the eBay decision more are  
16 willing to stand up to that attack if they believe that  
17 there are no merits to the case.

18           I think that has also resulted in a  
19 reduction in settlement amounts, when settlements  
20 do occur.  The threat of the injunction is  
21 dramatically reduced, and that had previously resulted  
22 in sometime some anomalies in the system where  
23 the patent may have commanded more than it would have  
24 prior to eBay.

25          MS. MICHEL:  Has eBay had any effect in the

1 biotech industry separate from the medical device  
2 industry?

3 MS. BELLON: Well, I would say both *eBay* and *KSR*  
4 have certainly had an indirect effect. It's hard in  
5 these economic times to tease out the  
6 hard economic times versus fear of investing in life  
7 sciences because of cases like *eBay* and *KSR*.

8 But to elaborate a little bit on one of Jeff's  
9 points earlier, when *KSR* was decided I think there was a  
10 lot of panic in the patent community like, "oh, no it's  
11 going to be impossible to get a case through the patent  
12 office, everything is going to be found invalid for  
13 obviousness." After a while, we saw the cases that were  
14 coming out and we decided that in fact that wasn't the  
15 case.

16 You can still get patents on new inventions. But,  
17 significantly after the patent community had  
18 come to that realization, I was at a meeting  
19 with a bunch of investors, and the investors are still  
20 referring to *KSR* as that Supreme Court case that makes  
21 everything obvious.

22 MR. SINGER: One thing I would add to what Chris  
23 is saying, the question is really when do we get to the  
24 tipping point because *KSR* in and of itself, *eBay*,  
25 *Seagate*, *Quanta*, *MedImmune*, patent reform, at what point



1 worried about separate, with regard to the patent  
2 estate?

3 MR. SINGER: I think first of all what Chris  
4 said is really important, which is we're not dealing  
5 with a controlled experiment here in that there's a  
6 whole economic situation out there that impacts what  
7 everybody does and the risks that people are willing to  
8 take. To some extent, it means that people can point  
9 to something when they really don't want to make another  
10 investment. They can just point to, "Oh, the patent laws  
11 are whacky so I'm not willing to make the investment."

12 But investors who are giving serious  
13 considerations to making investments, as I said I don't  
14 think it's one thing over and above the others. It's  
15 just the dimension of things. It's the climate for  
16 patents and patent enforcement and the sense that there  
17 is a hostility in the judiciary, and there's hostility  
18 in the administrative branches and legislative branches  
19 right now against strong patent protection.

20 MS. MICHEL: Okay. I'm curious how much of that  
21 sense of hostility is a perception and how much do you  
22 think it's really grounded in reality though? What I'm  
23 wondering is how sophisticated are the investors in  
24 understanding the impact of *KSR* on the biotechnology  
25 industry and the impact of *eBay* on the biotechnology



1 they are taking and whether or not the investment is  
2 going to payoff. If the law changes mid course, that  
3 just changes the formula under which they invested, and  
4 that worries them, and so they do ask many questions to  
5 drill down what does this mean about each individual  
6 one.

7           But the overall sense is that as they drill down  
8 on each one is that right now they're in an environment  
9 where the pendulum is swinging against the patent owner.

1 drug field *per se*, they're saying: How long are you going  
2 to be able to sell this product before generics come on  
3 the market? What's your LOE [loss of exclusivity] date?

4 And echoing what Maggie said before, our  
5 valuation models and the valuation models of the  
6 investors, you try to quantify that risk, and the fact,  
7 simple fact is that whereas five years ago somebody in  
8 some hypothetical might be willing to put an 80 percent  
9 chance of success on a given dispute or issue, now  
10 that's 60.

11 So you just -- you might have passed your hurdle

1 creates more uncertainty and wanted to drill down a  
2 little bit into the individual cases to understand the  
3 substance a little more.

4 MR. MYERS: Let me only speak very briefly and  
5 defer to Maggie and Chris, but there have been some post  
6 *KSR* cases in the chemical arts, and it really doesn't  
7 seem to be having a very direct impact on the chemical  
8 arts. There's a recognition and in the Federal Circuit  
9 and the courts that drugs are not gas pedals.

10 MS. MICHEL: Okay. It's fair. Christine?

11 MS. BELLON: Just to elaborate on that point, we  
12 took a really very careful look at the statistics and  
13 the cases that have been decided post-*KSR*, and in fact  
14 it's actually very reassuring from being at a life  
15 sciences company to see that *KSR* has had I think much  
16 less of an effect on life science patents than we  
17 thought it was going to.

18 MS. MICHEL: All right.

19 MS. BELLON: But we still have the perception  
20 hanging over us that there's the Supreme Court case out  
21 there.

22 MS. MICHEL: Steve?

23 MR. SINGER: It's not just limited to *KSR*.  
24 Maybe we shouldn't focus so much on that case.

25 MS. MICHEL: I was going to break them down and



1 go through them one at a time.

2 MR. SINGER: Because I think eBay is probably a  
3 very significant one, and I love my patent colleagues to  
4 talk about it, but the fundamental issue for a company  
5 with a drug going onto the market with a potential  
6 infringer is to get them off the market.

7 MS. MICHEL: Yes.

8 MR. SINGER: Getting damages is nice but it's  
9 not really what the game is about. It's getting them  
10 off the market. The extent that eBay makes it harder or  
11 makes it more uncertain that you will get a permanent  
12 injunction, it's one of those other negative factors  
13 that are affecting investors.

14 MS. MICHEL: All right. Any concrete sense that  
15 eBay's actually going to make it harder to get that  
16 infringer off the market? On our injunctions panel,  
17 there was a lot of fear about this. We didn't hear  
18 anything concrete.

19 MR. JENSEN: I think you simply have to sample  
20 the cases, which I haven't done statistically.  
21 Anecdotally, I know that among patent firms, each time an  
22 injunction is now denied at a district court with the  
23 advent of the internet, I think every patent lawyer in  
24 the country knows within about 15 seconds. They are  
25 occurring anecdotally. From what those e-mails I see

1 they are occurring more frequently at the district court  
2 level.

3 MS. MICHEL: All right.

4 MS. BELLON: For one concrete example,  
5 ultimately I think the injunction was granted but there  
6 was the *Amgen v. La Roche* case about a year ago, and that  
7 really made a lot of people in the pharmaceutical  
8 industry very nervous because it really cuts at the  
9 heart of the patent. A patent is the right to exclude,  
10 and if a court is going to say to the patent owner,  
11 "Well, actually we're going to let this other party on to  
12 the market and pay you some royalties." It completely  
13 takes away the power of the patent.

14 MS. MICHEL: Yes. And in the court's discussion  
15 of the public interest in that case, as I understand  
16 that was one source of the concern there; is that  
17 right?

18 MS. BELLON: Yes, it was very much a concern  
19 because one of the factors that the court  
20 used was, that there's a public interest in  
21 getting cheaper drugs on to the market and so if we  
22 allow the infringer on to the market, the drugs will be  
23 cheaper, and isn'tw in o0.04fFor the publi b4t,

1 develop better drugs, I think the public is actually  
2 very poorly served in the long-term.

3 MR. ADKINSON: Has there been an increase in the  
4 systemic uncertainty in the sense that the level of  
5 change in the system over the last five years creates  
6 uncertainty as to whether there will be a great deal of  
7 more change over the next five years?

8 MR. SINGER: It's a hard question to answer  
9 because when you're talking about systemic uncertainty  
10 and you're not dealing as I said before in a controlled  
11 experiment environment, there's a lot of systemic  
12 uncertainty right now. How much of it is attributable  
13 to the changes in the patent law, I'm not able to  
14 determine.

15 MR. JENSEN: I was going to add,  
16 on the right to exclude, I can give you data there that  
17 is instructive. I think in terms of that being the  
18 fundamental patent right, and we do have good data  
19 there, probably came from Janicke, and that is that the  
20 average patent infringement judgment is well below the  
21 average price to take it to trial.

22 So the fees exceed, on average, the judgment, the  
23 damages judgment, and that tells you that those cases  
24 are principally about excluding, not about recovery on  
25 average.

1                   MS. MICHEL: Let's go back and talk about the  
2    business model in which we have the start-up company



1 besides just the patents, just the patent rights? Do  
2 the inventors go along with the technology, other know  
3 how going along with the technology?

4 MR. SINGER: Sure, and it's typically a license  
5 for the patent rights and the know-how and the data, to  
6 the extent there is data. It's a package that goes well  
7 beyond the patents, but doesn't include people other  
8 than on a collaborative basis.

9 MS. MICHEL: All right. Very good.

10 MR. JENSEN: That probably differs in  
11 the device arena where often, if you're picking up  
12 a technology, you do want the engineers to go along with  
13 that technology to sustain it because most devices  
14 require sustaining engineering as things occur out  
15 there. You get MDRs, medical device records with the  
16 FDA. The engineering team is usually needed when a  
17 technology is acquired.

18 MS. MICHEL: Jeff?

19 MR. MYERS: Yeah, and I think you would see in  
20 an acquisition or a licensing, more typically in an  
21 acquisition where you're getting technology that is new  
22 but has something that's been proven or where there's a lot  
23 of trade secrets. I mean, getting those people is a big  
24 part of the deal. It's fine to have trade secrets but  
25 the trade secrets have feet, and if they leave, out go

1 your trade secrets as a practical matter.

2 MS. MICHEL: Maggie?

3 MS. SHAFMASTER: I would just echo that when  
4 licensing in technology from a university, it may be a  
5 straight patent and know-how license, but getting it  
6 from a small private company, it's either an acquisition  
7 or it's usually some kind of partnership or  
8 collaboration because those are the people that  
9 developed it. They know it better than anyone else.

10 They know where they want to go with  
11 it, and we want them very involved. They're the experts  
12 in that technology.

13 MS. MICHEL: What is the importance in the  
14 biotech industry of this externally developed technology  
15 that then becomes acquired by a manufacturing company  
16 versus internally developed technological for biotech?

17 Jeff, your company licenses or brings in this  
18 kind of technology and develops some  
19 internally but why is that?

20 MR. MYERS: I'll talk about biotechnology versus  
21 small molecules. In the small molecule space we have a  
22 lot of R&D expertise and manufacturing expertise, and we  
23 have all the people and the know-how that's necessary to  
24 do that.

25 Pfizer, I would say, traditionally had not

1     invested in the biotechnology area sufficiently  
2     to say you could just bring in patents and maybe a  
3     development project. We don't have the  
4     manufacturing capacity. We do have some -- a lot of  
5     the biotech manufacturing that involves things like  
6     human growth hormones which we have products in,  
7     recombinant human growth compound, that's acquired. We  
8     outsource a lot of that.

9             But a big difference in the -- I don't want to  
10     get sort of ahead of ourselves here, but we all know  
11     that Pfizer's proposing to buy Wyeth, and that would  
12     turn Pfizer from essentially an insignificant player in  
13     the biotech space to number 4 and 5. As I mentioned  
14     before, clearly the people -- and it's not just the vats  
15     and the plumbing. I mean, the people are a huge part of  
16     that value.

17            MS. MICHEL: Maggie, do you have any thoughts on  
18     why the biotechnology industry has developed in this way  
19     where much of the innovation is done by start-ups and  
20     then brought into a larger company, or Christine? It's  
21     interesting not every industry operates this way. Do  
22     you have a thought about that, Christine?

23            MS. BELLON: Well, to some extent small start  
24     ups are sort of uniquely set up to concentrate and to  
25     really focus on a single technology, and these



1 technologies are really complicated, and we have people  
2 working at Hydra who have been working in the trip ion  
3 channel field. They've been working in this field since  
4 the field started, so that knowledge is  
5 invaluable to the company, and a small company -- it's a  
6 little bit more flexible than a Pfizer, for example, and  
7 able to sort of follow the technology a little bit more  
8 nimbly I think.

9 MS. MICHEL: Okay.

10 MR. MYERS: Maybe a fair way to say it is look,  
11 the biotech industry did not spring out of the  
12 pharmaceutical industry, right. It really came out of  
13 universities and government sponsored research, *et*  
14 *cetera*, and so you have long haired academics and people  
15 who are not really going to fit into the corporate  
16 environment.

17 I mean, we even have these discussions  
18 internally about when you acquire certain types of  
19 technology, you want to avoid Pfizer-rizing  
20 it (and I like to say the word is spelled with a P but  
21 it sounds like something else), and so we actually  
22 now have two independent research units.

23 We have Pfizer global research and  
24 development, the small molecule group, and then we have  
25 our BBC, which is San Francisco and Cambridge,

1     and those are the biotech guys, and we're trying not to  
2     Pfizer-rize them. We're trying to let them do what they  
3     do.

1 that's come from.

2 MS. MICHEL: Okay. Steve?

3 MR. JENSEN: I was going to say after having  
4 watched inventors for almost 20 years, I think there is  
5 a particular type of person that innovates, and they  
6 have to have around them the freedom to innovate, and I  
7 think what Jeff was talking about is precisely so.

8 In fact, I think there was an article in the *Wall*  
9 *Street Journal* this morning about Genentech and Roche  
10 and the acquisition and the same issue and whether or  
11 not the engineers would continue and the scientists would  
12 continue to be given time to think.

13 And as I watch inventions come in through our  
14 doors, they're usually from people who have time to  
15 think, and they're thinking about problems that they're  
16 intrigued by, and they will do this as long as  
17 they're given the freedom to do it. That is I think  
18 one of the reasons that sometimes you see that in  
19 smaller companies. There's sometimes more freedom to do  
20 that, but large companies can do it, as well, if they're  
21 set up right.

22 MS. SHAFMASTER: I would agree. As I mentioned  
23 in my opening remarks, some of the products that  
24 Genzyme has developed and brought to market were done  
25 completely internally, and others were acquired in from

1     universities or small companies that were spin-outs of  
2     technology from a university.

3             A lot of it just has to do with focus and being  
4     able to do what you're good at and being able to see  
5     opportunities wherever they arise. But, if we tried to  
6     say that all of our products were going to come from  
7     basic research done at Genzyme, we wouldn't be able to  
8     bring nearly so many products to market. Too many other  
9     things need to get done.

10            MS. MICHEL: In structuring these deals for  
11     bringing in this technology from the outside and making  
12     it commercializable, how do you value that technology?  
13     How do you set up that deal? Steve?

1 have confidentiality obligations to their other  
2 companies, they can talk about ranges of royalties,  
3 ranges of milestone payments and upfront payment, so  
4 there's a lot of information out there in the system.

5 Smaller companies I don't think are at an  
6 informational disadvantage to larger companies, and it  
7 hasn't posed a major issue as far as the fact that very  
8 often you're licensing an early stage technology and you  
9 don't know how valuable it's going to be.

10 That's really what the structure -- how the  
11 structure of the deal works. That influences mostly the  
12 up-front payment that you can get, but the milestones. If  
13 you're successful, you will get larger payments as you  
14 go forward. If you structure your royalties to reward  
15 the company when the product has  
16 higher sales, you address the uncertain valuation issue  
17 to some extent in that way.

18 MS. MICHEL: So even when you're licensing early  
19 stage technology, would you have a royalty based on a  
20 product that may come out in the future?

21 MR. SINGER: You wouldn't do the deal if you  
22 didn't have a royalty based on the product in the  
23 future, and the companies typically are not  
24 doing it for an up-front payment, although  
25 that's important for their current operation. Why

1 they're doing it is to build a company, and to build a  
2 company they need royalties and milestone payments down  
3 the road.

4 MS. MICHEL: Okay. Good. I don't have another  
5 question at this point. This has been a great  
6 conversation. Do any of you have points that you would  
7 like to add to the discussion?

8 MS. SHAFMASTER: I do.

9 MS. MICHEL: Please do.

10 MS. SHAFMASTER: I wanted to make the point that  
11 when you look at our industry, the biotech industry and  
12 you look at what's happened over the last 10, 15 years,  
13 more and more of the market is becoming generic and "me  
14 too" projects. A smaller and smaller percentage is  
15 left for innovators, and there are more and more things  
16 that are happening that are going to accelerate that

1           And all the rest is "me too" products, and I think  
2   that administrative agencies may be very well suited to  
3   have that long-term view, and I would urge you to try to  
4   keep it in mind.

5           MR. SINGER: I would like to make a point about  
6   damages and the calculation of damages.

7           MS. MICHEL: Please do.

8           MR. SINGER: We haven't addressed that issues,

1 investors with the way that reasonable royalties are  
2 calculated in damages in that wouldn't it be more likely  
3 for a biotech product to get lost profit damages if  
4 there were infringement?

5 MR. SINGER: It might be, but the concern is  
6 once again the uncertainty that's caused by prior art  
7 subtraction method and how that would be applied in a  
8 biotech context. It's more the uncertainty than how it  
9 might actually work out.

10 MS. MICHEL: Okay. Yes, Steve?

11 MR. JENSEN: I was going to say on that damages  
12 topic, I was going to say I still have yet to see any  
13 data that suggests that there is a big problem in the  
14 way damages have been calculated traditionally. I hear  
15 anecdotes, but I have yet to see any data on that  
16 supports that.

17 If anything the data I've seen suggests it might  
18 be going the other direction, although I haven't seen  
19 any good data on that. The lost profits question you  
20 posed, lost profits for an early stage company is a  
21 difficult proof. It requires several factors, and they  
22 probably will not be able 0.ythi23e1.0- a10 lEnt 15 r





1 with the counting convenience once you've figured out  
2 what the value in the deal is and maybe you think it  
3 should be 10 percent on a particular piece, but the base  
4 turns into the whole product, and the royalty moves down  
5 to half a percent, right, so they can't be talked about  
6 separately like they're being talked about in the  
7 current legislation in my view.

8 MS. MICHEL: Steve, would you agree with that?

9 MR. SINGER: Yes.

10 MS. MICHEL: Yes. Okay. One question, Steve  
11 Jensen: When you talked about the base being a matter  
12 of accounting convenience, is that true or does it vary  
13 depending on what the claim scope is?

14 MR. JENSEN: The claim scope of course defines  
15 the scope of protection, and as patent lawyers we will  
16 often try to do something with that claim scope to  
17 impact the royalty base. However, again it comes back  
18 to what the value is in that invention, right, and so  
19 the claim scope may define a particular piece. It might  
20 define the cap on this bottle but that's not sold  
21 separately.

22 The bottle is sold together so while the cap is  
23 worth two pennies and the bottle is worth another penny,  
24 we'll still, from an accounting standpoint, look at what  
25 is accounted for so the claim defines what the parties

1 are talking about, but not at the end of the day how  
2 the royalty is actually calculated.

3 Sometimes it will, if that's already in the accounting  
4 systems for the licensor or the licensee, but if it's  
5 not easily accounted for in database systems for  
6 tracking, it will usually become something that is more  
7 convenient, but again scaled back to what the claims  
8 covered.

9 MS. MICHEL: Okay. All right. We are out of  
10 time, and I thank you all very much. This has been very  
11 helpful and interesting. Thank you.

12 (Whereupon, the workshop was concluded at 5:00  
13 p.m.)

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