# Association of Corporate Patent Counsel

**ADDRESS BY**
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**U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

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MR. HAYTER: It's my privilege and honor to introduce our next guest. I didn't realize some of Chief Judge Michel's background until I read his bio. He's a graduate from Williams College, up in my neck of the woods, and the University of Virginia. He was a special Watergate prosecutor. He spent time as an Associate Deputy Attorney General in the Department of Justice. He was Arlen Specter's chief of staff. But Ronald Reagan appointed him to the Court of Appeals for the Federal Circuit in 1988 and he's been the chief judge since 2004. We're very honored and privileged to have Chief Judge Michel. Thank you.

(Applause.)

PAUL MICHEL: Good morning, everyone. I'm extremely pleased to be here. You are probably the most important group in America today. I will get into some of the reasons -- in case you don't already know – (laughter) – in just a moment. Let me begin by giving you something of a quick status report on the state of the court and its immediate future as you may be interested in assisting it.

First of all, we have all 12 judgeships filled now and four senior judges. So we have 16 judicial officers to draw on to handle your cases. The four seniors, of course, are part-time judges; they could be retired. In a sense, they're working for free because they collect the same salary whether they work or not. But, fortunately, they work at such a level so that together the four constitute, in effect, about a judge-and-a-half of full-time service. So our court has 13.5 judges, in a manner of speaking. Don't worry about the half vote right now. (Laughter.)

Now, the reason these numbers are important is this: We have pending today nearly 400 patent cases. And a great portion of them are exceedingly large and important and complicated. Because of the complexity and number, the pendency time is longer than I'm comfortable with. On average, it's 11.5 months. So basically, it takes us a year to resolve one of your appeals, on average. And, of course, understanding what averages are, that means that some of them take longer.

We have an internal standard which I do my best to enforce through all of the moral suasion that I can muster whereby we commit ourselves to one another. It's kind of like a pact, but not a suicide pact – (laughter) – it's a sort of monitor-your-colleague pact. And the pact is that we promise one another to get an opinion out the door, publicly issued, within 90 days of the oral argument. And we achieve that about 85 percent of the time.

Now, of course, the speed to get a fully-briefed case to oral argument is a function of how many judges you have, and we've already covered the numbers there, except that I should report to you that in order to achieve several purposes including moving your cases to argument faster by making the pre-argument time shorter, we now have sitting with us, by special invitation, every single argument week, at least one district judge from a jurisdiction that is trying a lot of patent cases. I started that program in September of 2006 so we're now at the approximately year-and-a-half mark and I can further report to

you the high level of enthusiasm of those judges. And, of course, this is all extra work for every one of those district judges. None of their cases at home go away. They get no relief.

Virtually every judge I have asked to come has said "yes." And only two said "no" and they had a murderous row of trials that were going to take them at least a year to finish. So they said, you know, "call me in a year or two and I'll try to do it." And because of that level of enthusiasm, I have district judges actually scheduled through the entire year, 2008. And I have a roster of people who have informally agreed to serve, but no dates yet, all through 2009. I consider that this program has achieved many purposes. Of course, it means we have more panels so we can hear cases sooner.

It means also that we get the advantage of informal conversation with these district judges about problems that they see with our caselaw or with other aspects of patent litigation. We have a chance to try to help them better understand what we do, how we do it and how the whole system is meant to fit together. It's been hugely helpful to us; it's extremely popular with them. They go back and tell their colleagues. And now I have people calling me up and asking to be invited to the party. So that's one thing that's going on that you should know about.

Another is that I'm engaged in trying to increase the outreach efforts to all of the critical intellectual property groups. So after the first three years of having the privilege to be the chief judge of the court and focusing mainly on internal matters – governance and efficiency and so forth, some of which I will touch on – I am now getting into the position where I can resume more travel and more speaking. And as a result, I'm already scheduled this year to meet and speak with virtually every group on the map. You know them all: ABA IP section, AIPLA, AIPPI, IPO, and the rest of the alphabet. (Laughter.)

Now, in addition to that – and this is not widely known; which is exactly why I want to mention it to you – I have great assistance, and through me the court does, from three separate advisory groups. One is – has the formal name Advisory Council and it's made up of 16 lawyers including a couple of academics, a great many practitioners from various types of practice. And their role is to help advise me and the court on general procedural matters, the sort of practicalities of litigation. And they are enormously helpful.

One of the other things that they do is help to plan our bi-annual Federal Circuit Judicial Conference. The next one will be on Thursday, May 15th, in Washington, DC. And I'm very hopeful that many of you in this room might join us on that occasion. I think it would be of great interest to you. It's not only intended for people who are in courtrooms and preparing to be in courtrooms for their living, but also intended to be of interest and value to those of you who manage intellectual property from corporate seats of power. So May 15th in Washington, DC. The invitations will be in the mail shortly and it will be possible to register online as well as through more cumbersome techniques.

The second advisory group is a small group of very seasoned litigators including one district judge and one former district judge who are advising on a project to improve patent jury instructions. They've gotten quite far down the road on this and we hope to be releasing some model jury instructions for patent cases some time this summer. Like all of the other circuits, they won't be mandatory; they won't be "pre-blessed" by the Federal Circuit. None of our judges are on the panel doing the drafting; they're all, as I say, litigators, and one current judge and one former judge, those two being Judge Ronald Whyte from not too far away in San Jose and the former District Judge Roderick R. McKelvie previously from Wilmington who is, of course, now in private practice in Washington, DC.

The third advisory group – and I'm so grateful to all of these men and women because it's, extra work for them. They've been extremely generous with their time, with their advice. And they have considerable wisdom. The third group is advising on changes in the patent law and, particularly, given the current circumstances, the pending legislation in the Congress. So I am doing everything I can to try to stay closely in touch with all of the key alphabet organizations and through these three advisory groups to get very intense, direct, face-to-face advice from some of the leading people in the profession.

One other thing the court continues to do, but it is becoming even a larger part of our work, is to make sure we sit around the country. Last October, we sat for a regular set of arguments in New York City and had several occasions outside of the courtroom to mingle with practitioners and people from corporate America in conjunction with that setting. Next fall, we will be sitting in November in Silicon Valley. We'll probably sit at Stanford and Santa Clara law schools and at the district courthouses in San Francisco and San Jose. And we already have up to nine judges who have volunteered to go, so we will have a very large portion of the court out there, just as we did in New York last fall.

Now, one thing about the present complement of judges, which should be on everyone's mind, is what the – I suppose the popular press might call the graying of the court. In my own case, I guess you have to say whitening. (Laughter.) There are currently, as I mentioned, four senior judges. But what is not so widely known is four more of us, including yours truly, are eligible to take senior status or retire outright immediately. They are judges Newman, Lourie, Mayer, and Michel. And so, you know, it could be soon; it could be later; it could be never because we're not required to retire or take senior status, but we're permitted to. So those four of us could add to the group of senior judges or retire outright anytime.

Equally important, by Labor Day of 2009, three more of our current 12 active judges will become eligible, again, to retire or take senior status. So we have seven possible changes in the composition of the court. Of course, that's a majority of 12, so very, very fateful. I mention this to you so you're aware of it and I'm very, very hopeful that, individually, for your companies, and for your clients, for those of you in private practice, that you will find ways through this organization and the other leading

organizations to participate in recommending or screening so that we have added to the court the very best possible members.

The work is fabulously interesting so that's an attraction, but it's also extremely difficult. I routinely get up at 4:00 or 5:00 in the morning to start my workday because there's just so much reading and it's so dense and difficult. So not everybody wants to do that, especially for the pay, which is generous, but far from what lawyers could make in many other settings. But the importance of careful screening and selection of Federal Circuit judges can hardly be overstated. So as we enter into this period where seven will be replaced, I hope that all of you will find ways to participate, including to recommend people that you know who you think would be great.

My own view, having of course once been a Senate staffer, is that you might direct your recommendations towards the Senate as well as the White House because they both play major roles. And, obviously, if somebody has some senatorial support early in the process, that may make the White House – whoever is there – more amenable to seriously considering those names. So a "word to the wise" and now we'll go on to the rest.

On technology, as no doubt nearly all of you know, our opinions go up on our website immediately. The briefs are available presently through West and I'm very hopeful that within a year, they will be available on one of the court's website, the so-called PACER website. I stress that partly because, very often, seeing the interpretation of our opinions by various commentators, including men and women in practice, I see interpretations that I know they never would have made had they seen the briefs because the opinion, of course, derives from the briefs. So I really commend the study of the briefs in a case before judgments are made about what implicit holding is somehow embedded in an opinion.

There are some other things on our website that might be interesting and, to an extent, might help you identify what sort of new members of the court you might like to see. And that is that the website includes quite detailed biographies of every one of our present judges. So there's a lot there. I hope you find it useful. If you have suggestions of what else you'd like to see on there, I'd be extremely eager to hear from you. One of the things that is not widely known is that chief judges are actually allowed to communicate with people in practice and people in industry. So it is not a federal felony if you write me a letter and make a suggestion. (Laughter.) Not only that, I promise to respond very promptly and to seriously consider what you suggest.

One last thing having to do with technology I should mention is that we are in the process of creating – and it's taking a little more time than I would like; I'm inherently impatient, by nature; but it's more important to do it right than to do it fast – and that is to be able to facilitate and enable the filing electronically of briefs and appendices in pending cases. We hope to have that up and running within a year.

After I finish my remarks and hopefully have a chance to answer some questions, you'll be hearing from Jim Amend, who is the circuit's chief mediator. It's very important to have this mediation program in context because it's changed so much that there's a lot of misunderstanding about it. We started out with this very low key, entirely voluntary system where people had to self-nominate their case for consideration. But we now have a program which is mandatory in terms of participation and, unlike its maiden-voyage year, now is run by Jim Amend who is a superb litigator with a fabulous record. I won't tell you exactly for how many decades he was a star litigator at Kirkland & Ellis, but it was more than two. (Laughter.)

To the astonishment of a great many members of our court who were quite skeptical when I first pushed this program, Jim has already settled – in his first year – several dozen major patent cases. When this program was proposed in April of 2005, I was told by several of my most knowledgeable fellow judges that the chances of settling patent cases at the appellate stage -- of course earlier, yes, but at the appellate stage -- was nil. So I said, "Well, let's find out."

Every other circuit, for at least a decade, had a serious, mandatory mediation program. We were the only circuit court that did not. So I thought, at the very least, we ought to see. We ought to try it out and see. Well, we tried it out. It's obviously a huge success and I commend it to you. You'll be hearing all of the important specifics from Jim shortly so I won't get into that now.

Now, having said that much about the court, I want to change the subject. I suppose that I should apologize for the fact that I have no slides and no jokes. (Laughter.) And that requires you to listen with a certain amount of concentration and I appreciate your effort to do that. Now, I want to talk about the overall patent system because we all have a stake in it; we all have at least two roles in it, but it's important to understand one of those roles. I would suggest to you, and I submit to my colleagues as well and to everyone else including the members of the Congress, that we should all consider ourselves trustees of this system.

This system has produced extraordinary technological advance in this country over many, many decades. You could even say centuries without exaggerating. It is the source of enormous wealth. It is the source of enormous power in the global marketplace. But like every system, it has choke points and weak points and potential breakdown points. And those are of great concern nowadays.

Now, our court, taking seriously this role as trustees of the system as well as of the individual cases, has some rather elaborate internal procedures that many people don't know about. For example, in every case, once the panel has agreed on a result and an opinion, it's reviewed by all of the other judges on the court. So, in a sense, every case has a kind of en banc review, certainly every patent case. And the big ones get extremely intense review. And there is an enormous amount of memo traffic between and among the judges. And very frequently, significant changes in opinions are made in

that so-called eight-day review period because we allow eight working days after the panel has concluded its work before the opinion can go out on the website to all of you in the real world.

You know, my original boss was Chief Judge Howard Markey and one of his innumerable stories that sticks with me because of the importance of keeping our focus on people out there in the real world doing real work with real technology. One of his favorite comments was: "What's the definition of Washington, D.C.?" Answer: "Ten square miles, shaped in a diamond, surrounded by reality." (Laughter.)

So you're our "reality check" which is part of the reason why I'm so appreciative of the chance to talk with you and to have your participation through letters, through attending our conferences, and in every other way that you can think of. Now, of course, once the opinion does go out, in virtually every patent case, the panel is petitioned to reconsider the decision and the rationale. So it gets to do it over again.

And that's inefficient, in a sense. It's laborious, in a sense, but it's very important because patent cases place the three panel members in exactly the circumstance in which your surgeon finds himself or your airline pilot. If we make a mistake, the consequences are very serious and very widespread. So we go to extreme lengths to make sure we're not making a mistake. Part of that is the eight-day review by the non-panel members of the court and, of course, part of it – and this is standard, of course, in all cases because it's part of the Federal Rules of Appellate Procedure – is this reconsideration and en banc rehearing petition process.

Now, we not only review those cases at those multiple stages, but, of course, occasionally, we do rehear a case en banc and they are not insignificant. You are all quite familiar with the Seagate case, dealing with willfulness. That's just perhaps the most recent example of what I would suggest is indeed a landmark case that solved some serious problems having to do with attorney-client privilege. We have pending before us right now petitions to rehear en banc three rather important cases dealing with patentable subject matter, the Section 101 cases. As many of you know, they are In Re Comiskey, Bilski, and Nuijten. And we have a conference coming up soon at which we'll make a final decision on whether to hear or rehear any or all of these cases en banc. So this is another very serious part of our process. Where it's a close call on whether to go en banc, conferences help. If it's very clear cut, we just vote by ballot, electronically now; it used to be on paper. But where it's more complicated or less clear, we actually have a meeting and the lawyers in the case in a way are replaced by judges who become advocates. So my colleague X who thinks a given case should be taken en banc takes the role of the advocate as if the writer of the en banc petition, where they are speaking through him. And then maybe my colleague Y takes the opposite view. And we have what looks kind of like an oral argument around a huge conference table. And then we finally make a decision.

Now, of course, in addition to the careful work that we try to do, in recent years, the last two or three years, we've had considerable involvement by the Supreme Court of

the United States. (Laughter.) I'm sure they're not finished. (Laughter.) I don't want to get into, you know, personal commentary on KSR or eBay, but I just want to suggest that, like our court, when the Supreme Court intervenes on a patent subject, it does so in a normal appellate fashion, trying to focus on the record before it, trying to draw heavily on the briefs, including many, many amicus briefs that are filed in their cases just as in our en banc cases. And so you could consider what they're doing a form of adjustment or modulation as opposed to radical change. The same thing when we go en banc. I think it's roughly comparable.

Now, by contrast, when the Congress intervenes, unavoidably, necessarily, and it's no criticism of them – I used to work there and do this stuff and I remember how it works. It's an extremely blunt instrument to legislate; it's not a scalpel, it's a hammer. And there's no way you can avoid that because they're addressing hundreds and hundreds of major national issues every year. So of course they can't master the important details of any one bill. It's humanly impossible. So they do the best they can; they have smart young staff who are, of course, very dangerous. (Laughter.) I was once one of them. (Laughter.) I remember exactly.

And, of course, in addition to the legislators being hugely burdened and diverted, even distracted by the innumerable problems they face: the war in Iraq and economy faltering. I mean, right this week they're working on a stimulus package, a defense appropriation bill, a counterterrorism, electronic-surveillance bill. I mean, they just have very tough stuff.

And their interventions are very infrequent. We go en banc every year in a case or two or three or maybe, in a banner year, four or five. The Supreme Court will take an important patent case once a year, once every other year, something on that order. But Congress intervenes in a significant way in our world of patents about once every half century. And so once they've finished, they're not likely to come back to it.

Now, there's a funny exception which is tax law. (Laughter.) They always come back the next year. (Laughter.) And they have something called technical corrections bill, but it may be 800-pages long so there apparently were a lot of technical mistakes. (Laughter.) But in the case of patents, once they have a major overhaul, they're not likely to revisit for a long time. Of course, who knows whether it will be a half a century or only 15 years, but it will be a long time, I expect. At least that is what is suggested by recent history.

Now, I want to talk about the pending legislation. As you know, I am not permitted to take the role of a lobbyist. I'm not allowed to run up to Congress and say, you should do this or you should not do that. I am permitted, and I have expressed myself on portions of the legislation that will heavily impact the administration of cases in the court, things like damages, venues interlocutory appeals, and to some extent some of the other sections, although I haven't really had much to say about inequitable conduct or willfulness, although they're obviously extremely important and do have impacts in given cases.

But I want to, with your patience, just walk through a little bit of the difficulty that I see as a judge in understanding the quandary that Congress must be in as it tries to understand these matters. I'm just going to take one example, and then I'll briefly talk about a second example.

But let me take damages first. The draft report of the Senate Judiciary Committee – there is no final report yet; in fact, there's no final bill. The bill the committee recommended is not actually going to be the bill that will be put on the floor and perhaps enacted into law, possibly by St. Valentine's Day. But in any event the draft report, which is all I have to work from, quotes from several academics. And I just want to trace through quickly a few of the things said by these academics.

For example, Professor Amy Landers said in an article, called "Incentives to Innovation and IP Law," that the legislation – now I'm quoting, "would inject some balance into the entire market-value rule, cutting back on the recent expansion of the rule." Now, the reason I'm trying to highlight this is I follow the work of the court fairly closely – (laughter) – I'm actually entirely unaware of any recent expansion of the entire market-value rule. So then I read the rest of her article to see what examples she gave, and she doesn't really give any examples.

So then, I tried to trace her own language as she proceeds through this long article. So then, she moves on to talking about – and now I'm again quoting, "a consistently over-broad application of the entire market-value rule threatens to chill innovation for those seeking to design, manufacture and sell products, or invest in such endeavors." And then she cross-cites to another part of her article that doesn't have any examples of this consistent practice. So I'm beginning to get a little bit suspicious as I read that.

So then, I turn to some of the other cited academics -- and of course, we have Dennis Crouch, Professor Crouch with us this morning. But he doesn't really count as an academic by my lexicon – (laughter) – because he came from a law firm where people actually practice law, and so that's a whole different orientation. (Laughter.) Professor Viet Dinh, a very well-known former official now at Georgetown Law School, wrote a kind of a white paper recently dealing with patent damages. And like some of the other academics, he claims that the entire market-value rule is routinely misapplied.

But he actually cites an example, but only one. It's a 1989 case, and guess what? I wrote it. (Laughter.) And I went back and looked at it: State Industries v. Mor-Flo. It's very interesting, why this case gets picked on so much. In their well-known monograph, two economic professors named Lerner and Jaffe claimed that the damages law was totally out of control because the courts, rather cluelessly, were misapplying the law. And so they specifically cited my State Industries case, which was condemned on the ground that it allowed double-dipping because it allowed both reasonable royalty and lost profits damages.

But they couldn't have read the case or at least if they did, they didn't understand it because it was for different products and different time periods that the two different types of damages were allowed, so it wasn't double-dipping at all; it was single-dipping. But they got it all mixed up, and so they said that State Industries did what it plainly didn't do. So now Professor Dinh cites State Industries as an example of a misapplication of the entire market-value rule, but he never explains how he reaches that conclusion, and I certainly don't understand it either. Maybe he relied on the economics professors.

Now, in the Senate draft report, in addition to relying on Professor Landers, there's considerable reliance on my friend, Professor Lemley. And again, he talks about reasonable royalties and the problem of equipment with, let's say, 1,000 parts and a patent covering one of the 1,000 parts, and what do you do with this damages conundrum. And he goes on and on, at some length in a Texas Law Review article, along with a man named Carl Shapiro. And he ends up concluding that the courts mishandled the damages inquiry in this kind of circumstance but again, he doesn't give any examples. And then, what he says by way of a solution is the following: "At a minimum, courts should consider technical expert testimony on the contribution the patented component makes to the entire product." Then he says, "but we think" – he and Shapiro think "that courts should go further, permitting survey evidence of customers about the reason they purchased the product and the attributes of that product they find useful."

Now, this is a perfectly fine solution but I am entirely unaware of any case in which such evidence has been proffered but excluded. There is certainly no federal circuit case upholding the exclusion of such evidence. So it looks to me like it's a kind of a non-problem because it's not what's happening out there.

Now, the reason that I'm so interested in these criticism of these practices in the courts, and of course the courts are not perfect, and I'm not trying to defend every case; there are occasionally "outlier" cases, they usually get corrected, usually in time – not always, there are probably a few real clunkers out there somewhere and perhaps I even wrote one or two of them. But it's very important to see what's happening because the congressional people are bombarded by all these assertions, all these claims, so they have to try to sort out, which of these assertions or claims are accurate, are supported, are not aberrational, not the famous anecdotal evidence but are representative of what really happens out there in industry or out there in the courts. And so I read, with total amazement, recently, in Forbes.com that the problem with the patent system in the courts as to how damages are handled is that damages "are based on the cost of an entire car when the patent covered an innovative tire." Now, I don't know about you but I am entirely unaware of any case in which a tire patent resulted in damages based on the value of your Mercedes. So there's a lot of mythology, it looks like to me, going on in all of this.

Now, some of you insomniacs who may watch public television, particularly late at night, may be familiar with the practice in the British parliament of the members of the parliament grilling the prime minister. It's really quite a startling – a bit irreverent, but it

sometimes produces very interesting inquiries. Now, if we switch it around, since we don't have a prime minister in the United States and the patent legislation leadership is in the hands, principally I suppose, of Chairman Leahy and Senator Hatch, but let's suppose that they were called in front of the Senate and, in the style of the British parliament, all the senators, all the other 98 senators sat there, they might ask a question like this: "Mr. Chairman, can you assure the House that the passage of this section four on damages will not seriously devalue the patent portfolios of every company in America?" "Mr. Chairman, can you assure us that this bill won't result in more jobs and U.S. wealth going overseas?" "Mr. Chairman, can you assure us that there have been some studies about the effects that will allow us to know, with reasonable confidence, what the actual consequences of these changes will be?" And so on and so on and so on.

Now, as far as I know questions like that have not been asked, certainly not on the Senate floor and as far as I can tell, largely not in the committee. So it's a cause of some concern.

Now, in addition to the heavy reliance in the draft report on some of my academic friends, there are some very interesting circumlocutions. Let me give you just a couple examples. In the draft report the most startling sentence, I think, is this: "But <u>if</u> juries award damages based on the value of the entire product and not simply on the infringement, a danger exacerbated in some cases by overly expansive claim drafting, then damage awards will be disproportionate to the harm." "If!" So even the committee doesn't purport to have established or to have proof that it is a common practice, but hypothecates that if it were, it would be inappropriate. I entirely agree with that; <u>if</u> it were, there would be a big problem. But the question is, does it happen, does it routinely happen? Is it consistently, in Professor Lander's words, the practice, the reality? I think not.

Then, listen to this other sentence in this draft report on the same general subject of excessive damages, quote: "No doubt several alarming cases, which have captured the attention of the public and the Congress, represent the tip of the iceberg. These, not surprisingly, involve outsized damages awards." Footnote: See the statement of Professor John Thomas. He's another friend of mine, a former law clerk at our court, a very smart young academic. He wrote a study that cited approximately 10 cases in which, in his opinion, the awards were larger than they should have been. So the committee relies on those, fair enough. But what did they omit? They omitted an article by a practitioner named Bill Rooklidge, which analyzed each of the 10 cases in great detail, and at least to my satisfaction, established that the awards were not inappropriate or unjustifiable under the facts of the case and were not a misapplication of the entire market-value rule or any other aspect of the rule of damages. But the Rooklidge article is not cited in the report, only the Thomas testimony.

Now, what would you think if, in an opinion, I as an appellate judge ruling on a case involving one of your companies, only cited the evidence on one side and didn't make any reference or take any account of the evidence on the other side? You may be very upset with me about that, but is that what the committee is doing? You have to draw

your own conclusions. I'm not here to make judgments about that; that's not the kind of judging I do. (Laughter.) But reading this report certainly makes you wonder and worry.

And then it goes on from there. How's this for a sentence that perhaps suggests a lack of sophistication, perhaps even a bit of naïveté? "Long past is the day in which the typical invention is a sui generis creation. Today's patents are often combinations and many products comprise dozens, if not hundreds or even thousands, of patents, and the infringed patent may only be one smaller part of a much larger whole." Well, typical inventions, to my understanding, were never sui generis. Combination patents have been here since Thomas Jefferson was the patent commissioner. So what level of understanding is reflected in this kind of a report?

So it gives me pause, it makes me concerned, and I expect that it might make many of you concerned too, which is the whole point to bringing this up. I have no stake in this; I don't own any stock in any of your companies, and I do that quite deliberately because I don't want to have to recuse myself from cases involving you. But you do have the welfare of your respective companies in your hands and perhaps own stock, and hopefully you do, and I hope you have lots of stock options and that they all do well. But you have a very big stake in this.

Here's another example of naïveté. They're talking about the guidance juries allegedly need from judges in the context of patent damage calculations at a contested trial. The committee report says – now I'm on page 13; the prior quotes were all from page 12. "The committee envisions a more active and better documented role for district courts, (and with the aid of the parties) in giving the juries guidance on the appropriate law for calculating reasonable royalties." Now, I always thought jury instructions were documented. (Laughter.) They're written by the litigators in opposing sets; adjudicated by a judge, pick one from this, one from that list, make it up on your own, pull it out of case law, otherwise do what judges do. So they start out with a submission of the lawyers, and they end up with a very formal document which can then be litigated on appeal. So it's a little unclear to me what the committee thinks actually happens at trial when they talk about the need to document the guidance that the judge is giving to the jury.

Well, my point is clear enough. So I just want to say a word or two about a second example from the committee report and the bill, and that deals with interlocutory appeals of claim construction orders. Now, the thing that is important to say here – well, actually two things. The first is we already have interlocutory appeals in a very high proportion of the patent cases. It's called summary judgment. You have a claim construction and then there's a summary judgment, usually of non-infringement but sometimes of infringement. Where there's a grant of summary judgment, the losing party has an absolute right to appeal, and they do.

When I joined the court almost 20 years ago, 90 percent of our cases were from completed trials, bench trial or jury trial. Now, today, between 70 and 80 percent of our cases are from summary judgments. So we already have a huge number of interlocutory,

i.e., pretrial appeals where the critical issue is claim construction. So the question becomes, well, do we need a lot more of those? Are we missing a large portion of the cases in which the claim construction is so decisive that we better have an immediate appellate review of the district judge's construction? Well, maybe so but it's not obvious to me that it's the case and the report, at least as I read it, doesn't make much of a case, and it certainly shows no awareness at all of the fact that the vast majority of our appeals are pretrial appeals and do turn on claim construction.

Now, the second thing that interests me about the section dealing with interlocutory appeals, it's section eight of the bill; it also deals with venue but I'm not going to get into that because of inadequate time. But if you look at the footnote, and they're on pages 26, 27, and 28, the report relies on the testimony, oral testimony at two or three hearings that the Senate had, of essentially three or four people. And they're all extremely bright people. I know some of them; I admire them greatly. But of course they're speaking for their particular companies, so when you read the footnotes you'll see that it's the witness for Goldman Sachs quoted again and again and again; it's the witness for J.P. Morgan quoted again and again and again; it's the witness for Visa quoted again and again and again. Nothing wrong with that because they have a legitimate point to make, and they make it very well. But what seems to be entirely missing is any quotes of testimony in a larger context from any of the scores of other industries.

Now, it has always been my assumption and my operating principle as a member of the reviewing court, handling these important patent matters, that the underlying philosophy of the patent system is it has to work for all technologies; it has to work for all kinds of companies, large and small; it has to work reasonably well at all stages in the life of a company, from when it's just a dream and some venture capitalists are being asked to put up some money to when it's a gigantic conglomerate operating globally in a multi-hundred-billion-dollar market. So if that's a fair sense of what the philosophy is, then one perspective from which the current bill could be examined is whether it will work for all industries, all technologies, all stage of maturation of the company or the technology.

Now, I would have thought that the Congress would have relied quite heavily on broad-based groups of knowledgeable lawyers, all those alphabet-soup organizations that I was mentioning earlier: ABA, AIPLA, IPO, even your own organization although you don't normally get involved in lobbying to the extent of some of the others. And many of these other organizations have produced what I read to be first-rate white papers on all of these controversial matters. So there's an ABA white paper, there's an AIPLA white paper; there are various letters from Herb Wamsley on behalf of the IPO organization on selected issues, not on everything, and so on. None of these is mentioned in the draft Senate report; there is no footnote quoting any of these broad-based groups' input.

Or, if you look at it from a standpoint not of white papers but of witnesses, Jeff Hawley testified. I think he's mentioned once in this entire report. Gary Griswold testified at length, in the House as well as in the Senate; barely mentioned anywhere in this report, and on and on and on. So there's a concern about whether only certain voices are being heard.

Now, this is a matter that is in your hands, not my hands. All I can do is help try to trace through the academic articles, the mass media articles, the process, the report. Soon, the official report will come out, maybe later this week; soon, the substitute bill, the managers' substitute amendment may come out. And then, we will all know what the real bill is, what the exact provisions are; what the real report is, what the exact language is. I'm only dealing with what's available now, which are just drafts subject to large or small change, we don't know.

But I suggest to you that there is hardly a higher calling for any of you on behalf of your individual companies, or on behalf of the country and our economy for that matter, than to try to assure that whatever the Congress, in its wisdom, works and whatever bill we have to live with in the ensuing decades, reflects the best input from all of the most knowledgeable and experienced people, from all of the best minds. It's not an easy job, I know many of you have worked on it very hard for a long time and I think that's a great credit to you. I hope that you're not exhausted because apparently, the interest of the Congress is not exhausted. (Laughter.)

So with that, I'd like to in whatever time will be permitted, to try to address things that are on your mind. I very much appreciate your listening so attentively to those things on my mind. Thank you.

(Applause.)

MR. Hayter: So we'll certainly take a couple minutes for questions.

Q: (Off mike.)

JUDGE MICHEL: Well, that's a very thoughtful question.

Look, I don't have a position on any of this. I'm just raising questions that I think merit thoughtful consideration by everyone in the system, including those of us here in this room.

Look, are litigation costs a problem? Of course they are; of course they are. Are individual litigations not always perfectly managed? Of course they're not always perfectly managed. Now, many judges in the kind of circumstance the gentleman raises would severely limit discovery in order to avoid the disruption and the huge cost in running up billable hours and all that, but in certain cases there are reasons not to do that. There are judgment calls managing a trial from the beginning to the end that the trial judge has to make. We're not infallible at the appeals level; the trial judges are not infallible. Everybody does the best they can, based on the information they have, to manage the process in a reasonable, efficient fashion.

One of the ironies, to me, of this legislative intervention as it now exists is that the overall theme is there's too much patent litigation, it's too expensive, and it takes too

long. But if you add an interlocutory appeals stage that doesn't exist now, you add a whole other year, remember 11 months on average, and you add more cost. So how are you achieving the goal of reducing cost and reducing patent litigation, speeding it up, by adding additional layers?

Now, there may be, as I think I admitted, some perhaps narrow, maybe not so narrow, swaths of cases where summary judgment is denied but nevertheless, the whole case is going to turn on the construction of the word "widget." And might that case be an appropriate vehicle for immediate appeal? Well, maybe, if the record is well enough developed that we can have a construction that we ourselves won't have to deviate from two years, three years, four years later in a further appeal; well, yeah. Is there a mechanism for doing that now? Yes, section 1292-D I guess it is, or maybe it's B, requires the assent of the court of appeals. What does the Senate bill do? It puts all the power in the hands of the district judge, not the court of appeals; instead of both having to agree, now only the district judge will decide.

Well, what incentive does the district judge have to keep the case in front of him when he has criminal cases, sentencing, speedy trial problems, overwhelming workload in every metropolitan jurisdiction? The incentive on his part will be huge to just get rid of the case for at least a year by certifying any claim construction, whether the record is good or not, whether the construction is likely to stand or not, because it solves his immediate problem, or seemingly solves his immediate problem.

So I'm not trying to suggest that litigation is as efficient as it could be, and I'm not trying to suggest that there are no cases that deserve an interlocutory appeal in the absence of a grant of summary judgment. But I'm suggesting that, as far as I can see, the case hasn't been made empirically with evidence, with representative examples, that there are a large number of cases <u>beyond</u> those where summary judgment is granted, that absolutely should be reviewed by the Federal Circuit before one more step is taken at the trial level. I don't see that that case has been made. If it can be made, then we should act accordingly, but it seems to me we shouldn't be legislating based on assumptions or myths, or assertions by witnesses for 10 companies when the witnesses for the other 3,000 companies in the country are not heard from. That doesn't seem like a sound approach; it wouldn't be sound approach for a court, and I wonder if it's a sound approach for the Congress.

But there is something to the idea, there is a kernel of sense in it, if it's modulated effectively and doesn't become a huge thing where every time there's a Markman hearing there's an appeal, there's a year delay, we spend another $100,000 then we go back and start all over again. We already get each patent case two or three times, and now it's going to be four or five times. It already takes, what, $4 or $5 million in the average case, and somewhere on the order of five to eight years? Well, maybe it's going to end up taking $8 or $10 million and we're going to be at eight to 12 years before we have a final result of a damages calculation that sticks, and somebody actually transfers money.

So there are costs to doing interlocutory appeals. There are costs to changing venue. I think we're going to end up litigating venue after the trial, and maybe having to send it back for a retrial, whether the physical facility of the defendant was a "regular" physical facility and was a "substantial" part of its national operations; these are words -- I'm paraphrasing -- out of the statute. So all these things have costs and benefits. I'm not saying there are no problems; I'm not saying that we shouldn't pay some costs to improve the system in some careful adjustment sort of fashion. But if this bill – and I'm not saying whether it is or not, you have to make your own judgment. But if this bill is a sledgehammer that's going to add a lot of cost and a lot of delay, and add new issues and add uncertainty, it's going completely contrary to the rationale for passing it in the first place, and the "reforms" may do more harm than good. That's the essential framework of analysis that I'm trying to suggest that all of us might consider following.

Thank you very much.

(Applause.)

JUDGE MICHEL: Thank you. I'll use the pen, and I appreciate all the company.

MR. HAYTER: Thank you so much, Judge.

Judge Michel will be with us for awhile, so if you have more questions feel free to talk to him offline.

Our next speaker is Jim Amend. Judge Michel introduced him very briefly; he spent a long time as a litigator at Kirkland and Ellis, and if you look at his list of clients a good number of them are here in this room –

(END)