

From: Nancy J. Linck
Sent: Friday, June 05, 2009 4:22 PM
To: Bahr, Robert
Subject: Comments on Deferred Examination

Bob,

My paper is attached. I hope it's helpful. As always, I'm ready to assist in any way I can.

Thanks for the week extension.

Best,
Nancy

Recommendations to the PTO Regarding Deferred Examination

Nancy J. Linck¹
Rothwell, Figg, Ernst & Manbeck
1425 K Street, NW
Washington, DC 20005
(202) 783-6040

May 29, 2009

In an ideal world, all patent applications would be examined promptly and effectively and would result in valid patents that could be enforced without litigation. However, this is not an ideal world. In spite of the PTO's extraordinary efforts, much out of its control has made the "ideal world" completely out of reach. Deferred examination offers a meaningful solution to the huge backlog of cases² and a way to improve the quality of examination for those cases in which examination is ultimately sought.

When I was the PTO's Solicitor, two Associate Solicitors and I proposed adopting deferred examination as part of a more extensive proposal for change.³ In spite of the passage of ten years, much has not changed, and the heart of our recommendations remains sound.⁴ Thus, I repeat select portions of our paper that relate to deferred examination (pp. 1-7).

Following recap of our 1998 recommendations as they related to deferred examination, I attempt to address issues that have been raised and were not considered in 1998: the "uncertainties" of deferral, the lack of use of Rule 103(d), the possible decrease in PTO funds, and the disparate relief from the examination burden for the biotech/pharma examiners compared to the in the computer arts/business methods examiners. I also discuss the following topics briefly: the "nuts and bolts" of a deferred examination system; the possibility of using rulemaking to establish such a system; and certain benefits of deferral not previously recognized in our 1998 paper (pp. 7-11).

I. 1998 Recommendations Regarding Deferred Examination

"C. Enabling the PTO to Cope with Increased Filings and the Rapid Advancement of Technology"

The ever-increasing number of patent applications filed each year and the loss of PTO-collected user fees jeopardizes the PTO's ability to provide high quality patent examination. This situation is particularly acute for patent applications in fields involving rapidly advancing technologies due to the lack

¹ The comments in this submission are those of the author and do not necessarily reflect those of her firm or any client.

² The backlog is expected to "dramatically increase" due to Asian-based filings. hwegner@foley.com.

³ N.J. Linck, K.T. Kramer, D.J. Ball, Jr., "A New Patent Examination System for the New Millenium," 35 Houston L. Rev. 305 (1998).

⁴ Several of our recommendations have been adopted, i.e., 18-month publication and inter partes reexamination.

of experience and legal training among patent examiners. Any proposed changes to the patent examination system must address these challenges. It is highly unlikely, however, that sufficient additional funds will be available in the near future⁵ to hire the requisite number of additional examiners, properly train them with a legal education, and retain them for a substantial number of years. Thus . . . this goal can only be achieved by changing the way the PTO does business, *i.e.*, the way it examines patents.

“D. Being More Responsive to Individual Applicants’ Needs

Any new patent examination system should recognize that different applicants may have different needs with respect to patent examination. For example, those in the software industry typically want rapid protection because the value of software is usually short-lived.⁶ On the other hand, those in the pharmaceutical industry typically value the end of the patent term more because they are often forced to delay commercializing their inventions due to regulatory testing.⁷ A patent examination system should attempt to satisfy, or at least be responsive to, both types of applicants. Our present "one-size-fits-all" system, based on a term measured from the filing date,⁸ cannot respond to individual applicants’ needs.”⁹

In order to achieve these and other goals, in 1998 we recommended certain changes to the United States patent examination system including two related to deferred examination:

“(1) Permit the applicant to control the pace of substantive examination;

••••

“(3) Examine only for formalities on filing and defer substantive examination, including the search for prior art,¹⁰ for up to five years after publication;

⁵ Diversion of patent examination fees to other governmental programs remains a challenge for the USPTO.

⁶ See Thomas P. Burke, Note, Software Patent Protection: Debugging the Current System, 69 NOTRE DAME L. REV. 1115, 1127 (1994) (commenting that the majority of profits on high-end software products take place during the first few months of sales before they are “leap-frogged” by new technologies and products); see also John A. Kidwell, Software and Semiconductors: Why Are We Confused?, 70 MINN. L. REV. 533, 533 (1985) (recognizing the special concerns associated with intellectual property protection in the software industry due to the substantial development costs associated with new software and the relatively inexpensive costs associated with duplicating new software).

⁷ See Michelle S. Marks, The Impact of the Patent Term Provisions of the 1994 Uruguay Round Agreements on the Drug Price Competition and Patent Term Restoration Act, 51 FOOD & DRUG L.J. 445, 449-50 (1996) (noting that because competitors seeking to introduce a generic product in the market cannot perform the testing required to satisfy FDA regulations until after the patent term expires, patentees in the pharmaceutical industry especially value the end of the patent term as “an additional postpatent period of market exclusivity”).

⁸ See 35 U.S.C. § 154(a)(2) (1994) (specifying that the term of the patent begins on the date the application is filed).

⁹ Linck, Kramer & Ball, *supra* note 3 at 311-12.

¹⁰ In order to evaluate the novelty and nonobviousness of the claimed subject matter in a patent application, the PTO conducts a search of the “prior art” in the relevant field, which includes material in previously issued patents; publications from anywhere in the world; and things known, used, or invented in the United States. See 37 C.F.R. 8

••••
“A. *Applicant Control*

“The new system [described in the 1998 paper] would permit the applicant to control the pace of examination, within limits, and it would permit the applicant to request both publication and examination when desired.

“In a system in which the patent term is measured from the effective filing date, it makes sense to leave the timing of examination in the applicant's hands. Obviously, this satisfies the goal of addressing individual applicants' needs. For example, those in the pharmaceutical area may particularly benefit by deferring examination until the value of a drug is better known.¹¹ Additionally, those in the software area may particularly benefit by requesting early publication and examination.¹²

“An applicant-driven system would also permit the PTO to examine fewer applications because those cases later determined to lack economic value would probably never be examined. One study, conducted by the Patent, Copyright, and Trademark Foundation, suggested that only a small number of patents are ever commercially utilized.¹³ In fact, only about thirty-three percent of the patents issued in the United States are maintained beyond the eleven-and-a-half year period requiring payment of a third maintenance fee.¹⁴ This statistic suggests that most patents have limited commercial lives. Allowing applicants to control the pace of examination would benefit the system because it would enable the PTO to focus its efforts on those applications that applicants decide should be examined, most likely those with commercial value. In many cases, a patent's value may only be determined after a period of time.¹⁵

1.104(a) (1997) (requiring the patent examiner to "make a thorough investigation of the available prior art relating to the subject matter of the claimed invention").

¹¹ By deferring examination until the economic value of the drug is ascertained, the patentee can increase the overall period of market exclusivity. See Marks, *supra* note 7, at 1450.

¹² By requesting early publication and examination, those in the software industry could gain protection earlier-when it is needed most. See Kidwell, *supra* note 6, at 533.

¹³ See Joseph Rossman & Barkev S. Sanders, The Patent Utilization Study, 1 PTC J. RES. & EDUC. 74, 96 (1957); see also EDWIN MANSFIELD, TECHNOLOGICAL CHANGE 129 n.5 (1971) (noting that one-third of respondents in a 1964 survey conducted by the Patent, Copyright, and Trademark Foundation indicated a loss on past patents).

¹⁴ See Charles E. Van Horn, *Practicalities and Potential Pitfalls When Using Provisional Patent Applications*, 22 AIPLA Q.J. 259, 296 (1994). Section 41(b) of Title 35 of the United States Code requires the Commissioner to charge fees for maintaining patents. See 35 U.S.C. §41(b) (1994). The fees are to be paid 3.5 years after grant, 7.5 years after grant, and 11.5 years after grant. See *id.*

¹⁵ The value of a patent ultimately depends on the actual commercial value of the invention, which can only be an estimated value at the time of application. See Alexander E. Silverman, Note, *Myth, Empiricism, and America's Competitive Edge: The Intellectual Property Antitrust Protection Act*, 43 STAN. L. REV. 1417, 1432 n.63 (1991) (noting that, in some cases, inventors may have difficulty in predicting whether or not an invention is worth patenting and that only a small percentage of patents have significant economic value).

“In Germany, the ability to defer examination resulted in only sixty-two percent of German patent applications being examined at all, with only approximately forty-two percent being requested in the first three years.¹⁶ In Japan, the total number of examinations requested is less than fifty percent.¹⁷ In comparison, with a system such as that in Europe, examination is requested in about ninety percent of the cases,¹⁸ even given the roughly twenty-four month delay for publication.

“The new system would permit an applicant to separately request the search for prior art¹⁹ any time after filing, with the possibility of receiving the search results prior to publication. If a prior art search is completed prior to publication, the search report would be published with the application.²⁰ This additional flexibility would give the applicant the opportunity to withdraw the application and protect the invention as a trade secret.²¹ This flexibility would also give the applicant an opportunity to amend the claims,²² in view of the prior art search results, prior to publication. This latter feature would be particularly useful because the value of provisional rights must, at least to some extent, depend upon the scope of the published claims.

“The only exception to an applicant-driven system would be when a third party requests examination. In the interest of fairness, a party concerned about infringement allegations must have the right to request examination, especially in a system, such as the one suggested here, in which examination may be deferred. Canada, Japan, Germany, and South Korea all permit third parties, as well as applicants, to request examination.²³ However, with the

¹⁶ See E. Jung, A Comparison of European and German Patent Granting Procedure in Practice, 17 IIC 455 (1986).

¹⁷ See JAPANESE PATENT OFFICE, 1995 ANNUAL REPORT 48 tbl. 6 (1996).

¹⁸ See EUROPEAN PATENT OFFICE, 1992 ANNUAL REPORT 30-31 (1993).

¹⁹ Refer to note 10 *supra* (defining prior art).

²⁰ Under the European Patent Convention ("EPC"), a novelty search is conducted prior to publication, and the results of the search are published with the application. See 1 EUROPEAN PATENTS HANDBOOK §§13.3.1, 13.7.5 (2d ed. 1995).

²¹ A trade secret is "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." RESTATEMENT (FIRST) OF TORTS §757 cmt. b (1939); see also *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 661 (4th Cir. 1993) (applying the Restatement's definition of a trade secret); *Borten v. Milton Bradley Co.*, 763 F.2d 461, 463 n.2 (1st Cir. 1985) (stating that "the majority of states" have adopted the Restatement's definition of a trade secret).

The Restatement identifies six factors to be considered in determining whether given information is one's trade secret: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and his competitors; (5) the amount of effort or money expended by him in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. See RESTATEMENT (FIRST) OF TORTS 757 cmt. B (1939).

²² The "claim" defines the scope of what an applicant claims to have invented or discovered. See *Patents, Trademarks, and Copyrights*, 37 C.F.R. § 1.75(a) (1998). Any amendment to a claim may only be made in accordance with the procedures set forth in the Code of Federal Regulations. See *id.* § 1.530(d)(2).

²³ See Patent Act, R.S.C., ch. P-4, 37(1) (1985), as amended by R.S.C., ch. 41 (Nov. 19, 1987) (Canada), reprinted in 2C JOHN P. SINNOTT & WILLIAM J. COTREAU, *WORLD PATENT LAW AND PRACTICE* (1995) [hereinafter *Canadian Patent Act*, in 2C SINNOTT & COTREAU]; German Patent Law of Dec. 16, 1980, Part III,

exception of South Korea, the third party is not allowed to participate in the examination prior to grant.²⁴ In order to curb any potential harassment by third parties, there should be some requirement for standing to contest the application, such as a showing that the third parties may be damaged by deferring examination. Alternatively, the third party should be required to shoulder the financial burden of processing the application.

••••

“C. Deferred Search and Examination

“The new system would provide examination for only formalities on filing and would defer both the prior art search and the substantive examination for up to five years following publication. This provision is key to the new system. Deferred examination would eliminate less valuable applications from the examination process and, thus, permit the PTO to shift some of its efforts to more valuable applications. In addition, deferred examination would permit the PTO to rely, to some extent, upon the searches and/or examinations conducted by other search authorities.²⁵

“A request for a search can be made any time after filing, but a request for examination cannot be made until after publication. This limitation would ensure that examiners receive the benefit of third party observations prior to issuing a first Office action. However, prohibiting an examination request until after publication could cause undue delay. One solution to this potential problem is to give the applicant the right to request early publication. Fees would be paid when action is requested. Such a shift in fees until later in the examination process would permit applicants to delay paying the more substantial fees necessary for search and examination²⁶ until later in the

44(2), *reprinted in 2D SINNOTT supra* [hereinafter German Patent Law, *in 2D SINNOTT*]; Japanese Patent Law, Law No. 121 of Apr. 13, 1959, Ch. III, Art. 48-3, *reprinted in 2F SINNOTT & COTREAU supra* [hereinafter Japanese Patent Law, *in 2F SINNOTT & COTREAU*]; Republic of Korea Patent Law, Law No. 3566, promulgated as amended, Dec. 31, 1986, Ch. IV, Art. 80-2(2), *reprinted in 2F SINNOTT & COTREAU supra* [hereinafter Republic of Korea Patent Law, *in 2F SINNOTT & COTREAU*].

²⁴ See Republic of Korea Patent Law, Ch. III, Art. 84(1)-(21), *in 2F SINNOTT & COTREAU* note 23 (providing that after publication, any person may furnish evidence that the invention is unpatentable). South Korea is in the process of changing to a post-grant opposition system. See South Korea to Establish Post-Grant Opposition System for Patents and Utility Model Registration, J. PROPRIETARY RTS., Apr. 1997, at 39, 39.

²⁵ Approximately 45% of the applications filed in the United States are first filed overseas. See *The Importance of Patent Term and Patent Application Disclosure Issues to Small Businesses: What Impact Will Proposed Changes Have on Small Business?: Hearing Before the Subcomm. on Gov't Program and Oversight of the House Comm. on Small Bus.*, 105th Cong. 87 (1997) (statement of Michael Kirk, Executive Director of the American Intellectual Property Association) (reporting that 45% of all United States patents are issued to foreign inventors and that almost all of these inventions are the subject of foreign patent applications). Thus, the likelihood that a foreign search and/or examination would be conducted prior to a request for examination is great. Certainly, some time in the next century, the United States will give full faith and credit to searches in at least the European Patent Office and the Japanese Patent Office. Some countries, such as Australia, offer a modified examination that permits an applicant to obtain a patent with claims that have issued in certain other countries with limited, if any, additional examination. See Patents Act 1952-1969, §§ 47-48 (Austl.), *reprinted in 2B SINNOTT & COTREAU, supra* note 23, at 22.

²⁶ See 35 U.S.C. § 41 (1994) (listing a schedule of fees for patent filing and examination).

process, giving them additional time to assess the value of the invention before making a major investment.

“The selection of five years as the limitation on deferral is somewhat arbitrary, but it tracks the corresponding period in a number of other industrialized countries. Canada and South Korea now permit deferral of an examination for up to five years from filing.²⁷ Germany and Japan permit deferral of the examination for up to seven years from filing.²⁸ Given that the proposed new system would require publication prior to examination, five years from publication would approximate seven years from filing.

“Prior to adoption of the twenty-year term, applicants delayed issuance of a patent through the filing of divisionals and continuations.²⁹ In effect, the United States had a deferred examination system, one without any time limitation. Many applicants had valid economic reasons for seeking delay, although a few clearly abused the system.³⁰ Today, such delay cannot be obtained through refiling.³¹ But, given the twenty-year term and pre-grant publication, in most cases, applicants will be able to control the speed of examination through a deferred examination system while promoting the progress of the useful arts. On the other hand, an applicant seeking prompt issuance of his or her patent would be able to request early publication and examination, thus minimizing the time from filing to grant.³²

“While recognizing that the European Patent Convention ("EPC") decided not to permit deferred examination beyond approximately twenty-four months³³ based on actual experience with deferred examination in many European countries, the reason why a longer deferral period was rejected is not clear. The value gained with deferred examination by both the applicant and the examining authority appears to far outweigh its disadvantages.³⁴

²⁷ See Canadian Patent Act § 96(1), in 2C SINNOTT & COTREAU, *supra* note 23; Republic of Korea Patent Law art. 80-2(2), in 2F SINNOTT & COTREAU, *supra* note 23.

²⁸ See Japanese Patent Law art. 48-3, in 2F SINNOTT & COTREAU *supra* note 23; German Patent Law § 44(2), in 2D SINNOTT, *supra* note 23. [Since 1998, Japan has decreased deferred examination to 3 years.]

²⁹ See David L. Marcus, *Is the Submarine Patent Torpedoed?: Ford Motor Co. v. Lemelson and the Revival of Continuation Application Laches*, 70 TEMPLE L. REV. 521, 524 (1997) (discussing the use of continuations to artificially delay the beginning of the patent term).

³⁰ See Jared Bobrow & Elizabeth Enayati, Patent Practitioners Beware: *GATT Changes the Rules in U.S. Patent Law*, J. PROPRIETARY RTS., Apr. 1995, at 13, 13 (discussing abuse of the system through "submarine patents," a process by which patentees delay issuance by filing continuations, hoping that an industry will develop while the application is secret so that the patentee may extract favorable license terms from those that innocently adopted the technology); see also Marcus, *supra* note 29, at 525 (noting abuse through submarine patenting).

³¹ See 35 U.S.C. § 154 (1994) (providing for a patent term that expires 20 years from the date of the first filing in the United States). Thus, delay by continuations or divisionals does not affect the term of the patent.

³² Refer to Part III.A *supra* (discussing the proposed applicant-driven system).

³³ See CHARTERED INST. OF PATENT AGENTS, 1 EUROPEAN PATENTS HANDBOOK § 10.24 (M.J.W. Atchley et al. eds., 2d ed. 1990) (noting that a European patent application is published 18 months from filing and that a request for examination must be made within six months from publication).

³⁴ Some commentators support deferred examination in systems in which the patent term is calculated from filing. See, e.g., HAROLD C. WEGNER, PATENT HARMONIZATION 23 (1993) (describing with approval the Dutch

According to one authority, deferred examination was one of the "cherished 'improvements'" a few years before the EPC was adopted.³⁵ One reason that has been given for its rejection was that examiners had a difficult time examining applications filed seven or more years earlier.³⁶ This reason does not appear to be a valid argument against deferred examination, as today the PTO frequently examines applications filed many years earlier.³⁷ Furthermore, reexamination in the United States can be requested at any time during the enforcement period of a patent,³⁸ often much more than seven years after filing.

“Of course, until examination is completed, the value of an application is uncertain and is likely not entitled to any presumption of validity. Thus, examination must be conducted promptly when needed and when requested by the applicant or an interested third party. Otherwise, there could be a negative impact on a substantial number of the identified goals, particularly the goals of being responsive to individual applicants' needs and of avoiding undue delay.”³⁹

II. 2009 Issues and Recommendations Regarding Deferred Examination

The material quoted from our 1998 paper is as relevant today as it was in 1998. However, it did not address certain issues that have been raised about deferred examination. Further, it was written before 18-month publication was adopted. Today, given the reality of publication, it makes even more sense to embrace deferred examination. Perhaps most significant, in the years since the paper was written, the PTO has attempted to address the backlog/quality issues by hiring more examiners and obtaining additional funding. Most now recognize that solution has not worked and is not likely to work in the future.⁴⁰

A. *The “Uncertainties” of Deferral*

Perhaps the most often expressed concern regarding deferred examination is that it would cause more uncertainty in our system, as claims can change over time. In fact, our present system is a de facto deferral system due to continuations, reissues and reexamination. While reissues filed more than two years after issue and reexaminations cannot broaden claims, they can result in

innovation of deferred examination); H. Geoffrey Lynfield, *Deferred Examination*, 11 IDEA 552, 569, 572 (1967) (noting that deferred examination relieves strain on the examining staff by reducing the number of applications to be examined).

³⁵ See Michael N. Meller, *A Patent for Europe*, 5 APLA Q.J. 246,247 (1977).

³⁶ See *id.*

³⁷ See, e.g., U.S. Pat. No. 5,711,146 (filed on Dec. 4, 1964 and granted on Jan. 27, 1998); U.S. Pat. No. 5,702,068 (filed on Sep. 25, 1979 and granted on Dec. 30, 1997).

³⁸ See 35 U.S.C. § 305 (1994) (providing the procedure for reexamination and placing no time limits on a request for reexamination).

³⁹ Linck, Kramer, & Ball, *supra* note 3, at 314-17.

⁴⁰ In 2002, the PTO proposed deferred examination as part of its 21st Century plan. The AIPLA, ABA and IPO opposed the proposal, arguing that hiring more examiners and giving the PTO more funds would address the backlog/quality issues. Fortunately, today, these organizations appear to be rethinking their strong opposition, while not yet enthusiastic supporters.

narrowing previously invalid claims, resulting in valid ones.

Deferred examination should result in less de facto deferrals, as applicants will be able to take more time to determine the value of what they have disclosed, how to claim it and proper claim scope. They would be able to accomplish these tasks without resorting to multiple filings for the same invention. Further, intervening rights could be made available to anyone who commenced practicing an unclaimed embodiment that was later claimed (a “first user”).⁴¹

Another possible result of adopting deferred examination is that patentees and patent owners may be more receptive to modifying and limiting continuation practice.

B. The Lack of Use of Rule 103(d)

An excellent question has been posed: Since applicants already have the ability to defer examination under rule 103(d) and do not do so, what is the point of adding another deferred examination provision? The answer to this question may well provide a roadmap to designing a new system, particularly one created through rulemaking.

The answer is complex and likely incomplete. My understanding is that there are at least two major reasons: First, all fees must be paid upon filing or shortly thereafter. Such a requirement discourages postponing an already paid-for examination.⁴² Second, those most likely to defer examination are also those most concerned with preserving patent term through patent term adjustment (PTA). As I understand the situation, deferral under Rule 103(d) results in loss of PTA, i.e., the deferral time is subtracted from the time the PTO delays in examining the application once examination is reinstated.

Further, Rule 103(d) is an “opt-out” system, i.e., examination goes forward unless the applicant requests deferral. While this should not make a difference, applicants may not be aware of the opportunity or may not consider it for a variety of other reasons. If forced to consider it by being required to request examination, some will likely not do so. However, this is not likely a major factor.

Another possible reason for its lack of use is the length of deferral (“three years from the earliest filing date for which a benefit is claimed”). Thus, for any application other than the first in a series, no meaningful deferral is available. Further, a fee is required, making it more expensive to go this route than to proceed with examination.

C. Less Operating Funds Would Be Available if Examination Fees are Deferred

In order to be successful, an applicant must be able to defer fees, as well as search and examination. In fact, the upfront fee should be minimal. However, deferring fees has raised concerns regarding PTO operating funds. While there may be an initial imbalance with fee

⁴¹ This is a recommendation made earlier by H. Wegner (based on a Fordham Intervening Rights Proposal). hwegner@foley.com.

⁴² This observation is based in part on personal communications with the chief IP counsel for a large U.S. company. Requiring that all fees be paid on filing is the primary reason that the company does not use Rule 103(d).

deferral, there are ways to ensure sufficient operating fees after a short time. Further a deferred examination system may encourage applicants to initially file more applications which would provide some additional filing fees. At present, only a fraction of the provisional applications filed are converted to regular applications.⁴³ It seems likely that a greater number of provisionals would be converted to regular applications if deferred examination, with a lower filing fee, were available, again adding to the PTO's coffers.

A deferred examination system does not require a reduction in fees, even though fewer applications are examined. In order to encourage applicants to defer examination, the initial filing fee should be low. However, a higher examination fee (higher than that imposed today) could be imposed at the time examination is requested. At this point, an applicant is more likely to appreciate the value of the application and would have avoided large fees for cases of little value. Thus, while initially, the PTO may experience a decrease in fees, the higher examination fees will ultimately compensate. Additionally, an applicant could be charged a small yearly fee to maintain the application in the PTO database during the deferral period. Requiring such a fee would also result in cases being reviewed and some dropped, thereby creating more certainty.

D. Unburdening Biotech/Pharma Examiners Would Not Assist Those in Other Groups

It seems clear that biotech/pharma applications are most likely to be deferred, while those in the computer/software/business methods areas are less likely to be deferred. Thus, there has been concern expressed regarding an unbalanced impact on those with different expertise. For example, a biotech examiner, relieved of her burden, would not be able to assist examiners in the computer/software/business methods arts, due to her lack of expertise in those areas.

While this challenge may be real initially, ultimately the PTO could staff the corps appropriately. Given the turnover of examiners, strategic planning should address this challenge in a relatively short period. One way the Board of Appeals has addressed imbalances in the workload is to enlist biotech/chemical APJs to handle mechanical and business methods cases. While such a practice is not ideal and may work better at an appellate level than it does at the examination level, it's one possible temporary solution while the proper hiring takes place.

E. Deferral Would Create a "Bubble" at the End of the Deferral Period

One concern is that the introduction of a deferred examination system would create a bubble of examination requests at the end of the deferral period. However, it seems unlikely all those requesting deferral would wait to make their requests to that time. It seems more likely, once the value of an application is recognized, the request would be made. Likewise, once an application is determined to lack value, ideally it would be dropped. Having a small yearly application maintenance fee should encourage such action.

⁴³ Based on data from the last 10 years, only about 60% of provisional applications are relied upon for priority in any later regular filing.

F. The Impact of Deferred Examination on Patent Term Adjustment (PTA)

In order for a deferred examination system to be used, applicants in the biotech and pharma communities must be encouraged to do so. As mentioned earlier in the discussion of Rule 103(d), it seems unlikely that these communities will use deferred examination unless it is PTA “neutral.” In other words, the deferral time cannot be subtracted from the time the PTO delays in examining the application once examination is requested. The possible loss of term is likely one of the major reasons, if not the major reason, Rule 103(d) is not used.⁴⁴

G. Nuts and Bolts of Deferred Examination

While it seems premature to worry about the “nuts and bolts” of deferred examination, such as how long the deferral period should be or whether third parties seeking examination should pay the costs of the examination, the old adage “the devil is in the details” may apply. So, for those concerned about the details, I offer the following:

First, an opt-in system should be adopted, as most other countries have successfully done. With such a system, the applicant must actively seek search and examination. One benefit of having an opt-in system is that it’s likely more applicants will defer examination, or at least will be aware of making a choice to move forward. As noted previously, the present system under Rule 103(d) is an opt-out examination system, and that could be one reason it is not used, albeit a minor one.⁴⁵

Second, third parties should be able to request search and/or examination but should bear the costs of these associated fees. By permitting third parties to do so, much of the uncertainty can be addressed.⁴⁶ However, third parties should not be permitted to participate in the examination, thereby creating a pre-grant opposition system—a type of system that has failed worldwide.

Third, the timing of search and examination should be at the applicant’s request and should be available separately for two different fees. An applicant or third party may want to see the results of the search prior to requesting examination. By uncoupling search and examination, applicants have more flexibility. Further, search fees and their results will be available earlier in many cases, to the benefit of the applicant, third parties and the PTO.

Fourth, the deferral period, absent a third party request for examination, should be long enough (1) to alleviate the backlog problem through the dropping of a sufficient number of cases, and (2) to permit applicants to determine whether a case is worth pursuing. Five years from the actual filing date is a good starting point.⁴⁷ However, the PTO should be given the ability to adjust this period by rulemaking. By doing so, the PTO can respond to the size of its backlog.⁴⁸

⁴⁴ See the discussion *supra*, at p. 8.

⁴⁵ *Id.* at 8-9.

⁴⁶ See Linck, Kramer, & Ball, *supra* note 3, at 316-17 (quoted *supra* at p. 4-5).

⁴⁷ Previously, it was recommended that the five year period be measured from publication, thereby yielding a deferral period of 6 ½ years. See Linck, Kramer, & Ball, *supra* note 3, at 318-20 (quoted *supra* at p. 5-6). Such a starting point remains an option to consider.

⁴⁸ Recommendation initially made by H. Wegner. hwegner@foley.com.

H. Adoption via Rulemaking or Statutory Changes

If a meaningful deferred examination system can be adopted through rulemaking, it makes sense to do so. Statutory changes take a long time and often result in something not envisioned by those who introduce the legislation. Given we already have Rule 103(d), perhaps it can be amended to address the reasons it has not been used, primarily the fee structure, the impact on PTA and the length of deferral measured from the priority date.⁴⁹

A suggestion has been made to extend the term of provisional applications. The provisional application was designed in part to permit U.S. applicants to have the same effective term as foreign applicants who only enter the U.S. after one year from their foreign filing date. However, provisionals are not entitled to many of the benefits of a regular filing. Thus the statutory provisions supporting provisional filings would have to be amended to address the limitations of such filings. See 35 U.S.C. § 111(b).

I. Benefits Not Identified in 1998

Perhaps most significant, deferring examination would provide U.S. examiners with the benefit of foreign searches and examinations in many cases. This is particularly true for cases that are first filed abroad. However, it would also apply in many cases originating in the U.S. that are later filed abroad. Certain foreign searches and examinations are quite thorough and would greatly benefit U.S. examination, both from a time perspective and a quality perspective. In fact, today, U.S. applications are frequently refiled once foreign searches and examinations become known, yielding prior art that requires amendment of claims formerly believed to be valid.

III. Summary of Key Recommendations

- 1) Adopt an opt-in deferred examination system, by rulemaking if possible. The German system, offering 7 years from the filing/priority date and permitting third party requests, may provide a good model to study for further details.⁵⁰
- 2) Permit applicants and third parties to separately request search and examination and pay separate fees for each.
- 3) Permit applicants to postpone a large portion of the fees until a request for search and examination is made but impose a small yearly application maintenance fee.
- 4) Permit third parties to make the requests but require they pay the search and examination fees and don't permit third party participation in examination.
- 5) Ensure the system is PTA neutral, i.e., do not subtract deferral time from PTA due to PTO's delay once examination is requested.
- 6) Make the deferral period at least 5 years from actual filing date but give the PTO the rulemaking authority to modify its length.

⁴⁹ See the discussion *supra* at p. 8.

⁵⁰ See Linck, Kramer, & Ball, *supra* note 3, at 315-16 (quoted *supra* at p. 4).