

From: Ron Katznelson
Sent: Friday, June 05, 2009 4:39 PM
To: AC6/Comments
Cc: Bahr, Robert
Subject: Deferred Examination Comments

Attention: Robert W. Bahr

Please accept my late-filed comments directed to the Office's inquiry on Deferred Examination.

The extra time was required to finalize a study attached to my comments. I believe that my comments and study will provide important information on this subject.

Best regards,

Ron

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The Hon. John J. Doll
Acting Under Secretary of Commerce;
Acting Director of the USPTO
Mail Stop Comments-Patents
Commissioner for Patents
P.O.Box 1450,
Alexandria, VA 22313-1450

May 29, 2009

Via e-mail to AC6comments@uspto.gov

Re: *Request for Comments and Notice of Roundtable on Deferred Examination for Patent Applications* [74 Fed. Reg. 4946](#) (January 28, 2009).

Dear Acting Under Secretary Doll:

I wish to thank you for inviting me to participate in the USPTO's February 12 Roundtable on Deferred Examination for Patent Applications (see [webcast](#), [agenda and attendee list](#)). I commend you and your staff for engaging in this preliminary inquiry, which I hope will lead to a thoughtful and comprehensive rulemaking inquiry and ultimately to a rulemaking process adopting this practice.

This submission is made to complement my remarks made during the Roundtable, and to further explain the basis of my strong support for the Office's adoption of an Examination On Request ("EOR") procedures in order to reduce pendency and improve patent quality.

During the Roundtable, I alluded to my upcoming public policy paper on EOR and the attached slide set is a summary of my draft paper. Also included as an appendix to the slide set, you will find my draft of a second paper on EOR, which focuses solely on workload savings of EOR systems. The model and parameters analyzed in the paper predict that if the USPTO were to implement a three-year deferral EOR procedure, there would be between 15% to 25% savings in examination workload and an 8% to 11% drop in examined applications compared to the flow under current practice.

I look forward to further participation in your deliberative process on ways to reduce USPTO workload and increase patent quality.

Respectfully submitted by



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Attachment: PowerPoint presentation and Appendix

Examination-On-Request - A Deferred Examination Proposal for the U.S. Patent Office

By

Ron D. Katznelson, Ph.D.

Comments submitted to USPTO

May 29, 2009

Examination On Request (EOR) - Content

- Acceleration of patent claim obsolescence and the skyrocketing application backlog at the USPTO call for adoption of EOR
- Advantages of EOR
- International experience with EOR
- An EOR system proposed for the U.S.
 - For new applications
 - For existing applications in USPTO's backlog
- Analysis of the proposed EOR system's fit within the existing statutory framework.
- Addressing concerns related to EOR
 - Public Notice Delay
 - Late Claiming
- Other further considerations for EOR implementation.
- Conclusion

Skyrocketing application backlog at the USPTO calls for adoption of Examination On Request system

- The USPTO accumulated more than 1.2 million applications pending examination, three times the number pending a decade ago.
- Incoming patent application filing rate exceeds USPTO's examination disposal capability by 20%.
- The USPTO strategic plan forecasts that examination resource shortfall compared to incoming applications will continue well into 2013.¹
- **Examination On Request (AKA Deferred Examination) can quickly and effectively reverse this 20-year old trend.**
 - Assuming a 3-year deferral system, an unexamined application dropout rate of 8%-11% is expected. Moreover, even in applications for which examination would ultimately be requested, some original claims would be withdrawn, resulting in a *larger fraction* of withdrawn claims (Claim Dropout Rate).
 - The examination workload savings to USPTO would be more than the Application Dropout rate. It would be proportional to the Claim Dropout Rate, which is expected to be in the range of 15%-25%.

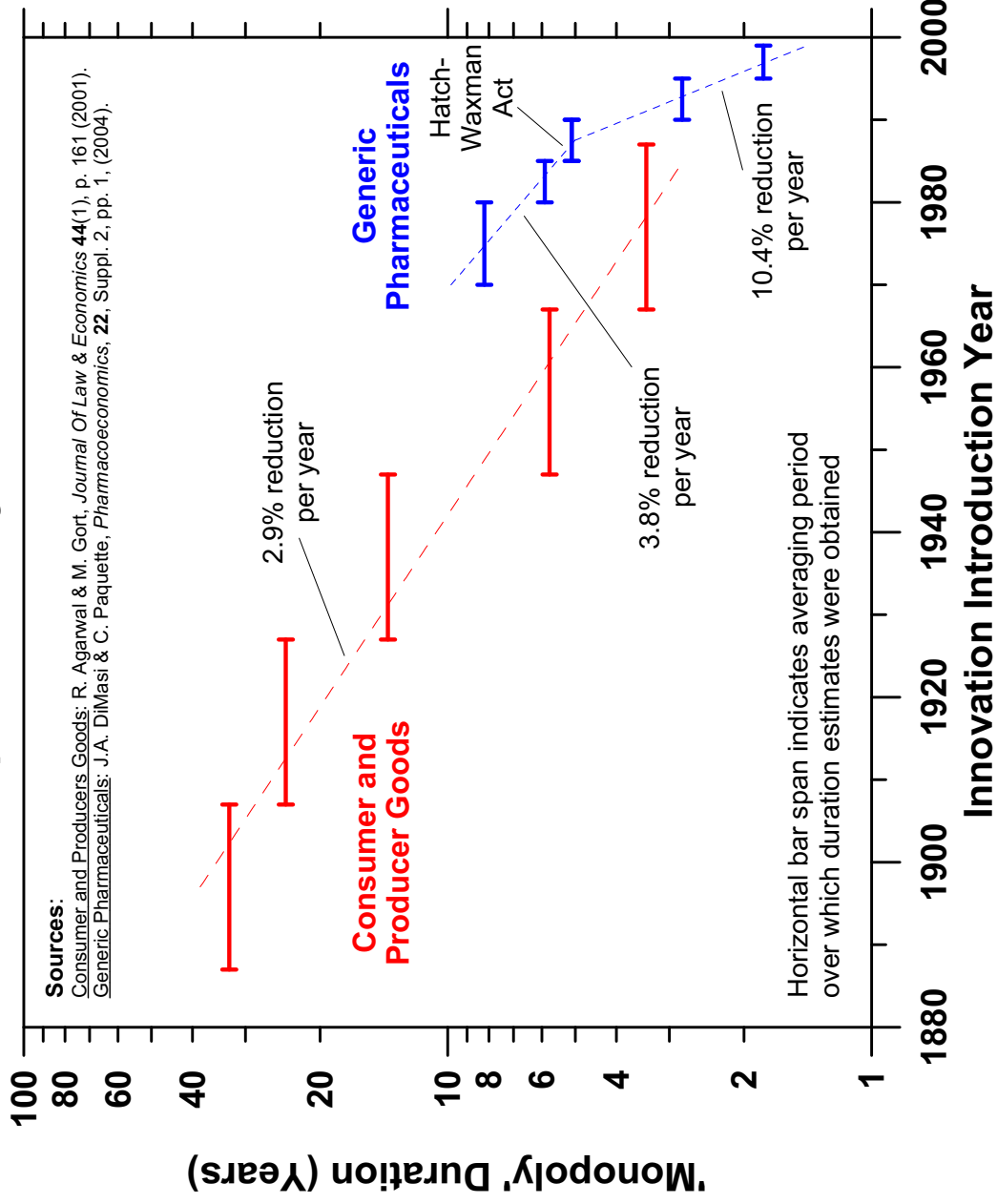
1. See FY 2009 Budget of the USPTO, at <http://www.uspto.gov/web/offices/ac/comp/budg/fy09pbr.pdf> (Compare 'UPR Applications Filed' and 'UPR Disposals' at page 19).

EOR targets the consequences of *product lifecycle contraction and acceleration of claim obsolescence*

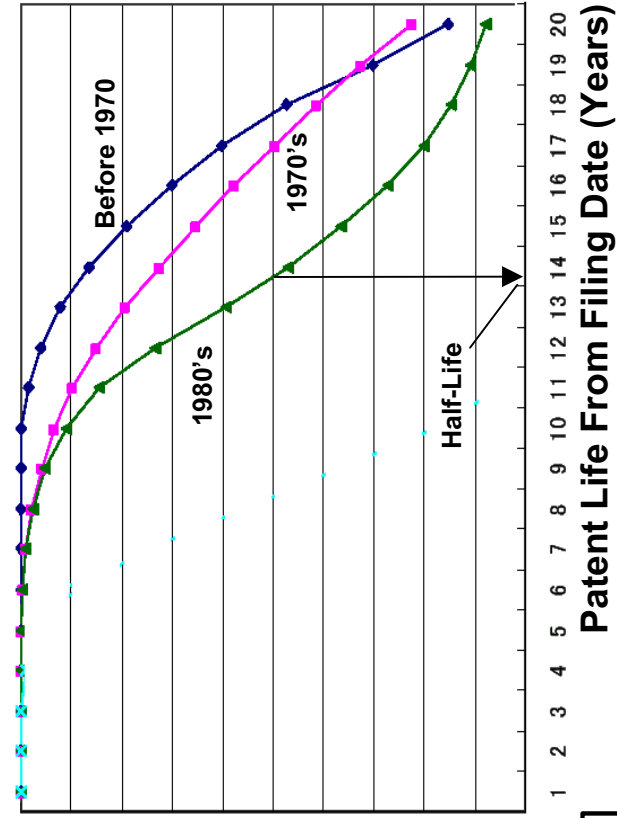
- Increase need for filing Provisional and Continuation applications.
 - A larger fraction of original applications require follow-up late claiming in order to cover specific new features/products and in order to appropriate equivalent returns from inventions.
 - Results in increased number of applications.
- A larger fraction of claims become obsolete by the time the USPTO issues the patent.
 - These obsolete examined applications are progressively less likely to fetch patent renewal revenues to the USPTO.
 - Substantial examination workload savings could be obtained by not examining these obsolete claims in the first place.

Contraction of Product Lifecycle Accelerates Patent Claim Obsolescence

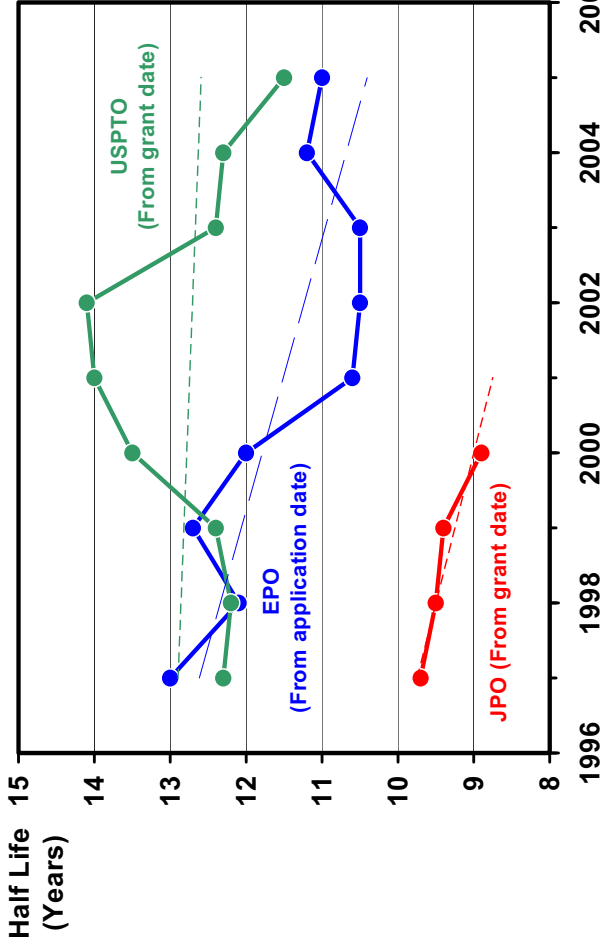
Historical Decline in Duration of Interval Prior to Competitive Entry for Innovations



Patent Lifetime Erosion Due to Product Lifecycle Shortening



Percent of patents surviving after renewal payments at the JPO by grant era. Source: Tokyo Institute of Intellectual Property (2006).



Patent lifetime at the USPTO, EPO and JPO. Half-Life is the patent age at which 50% of the patents are not renewed by their owners.
Source: Trilateral Patent Offices (2006).

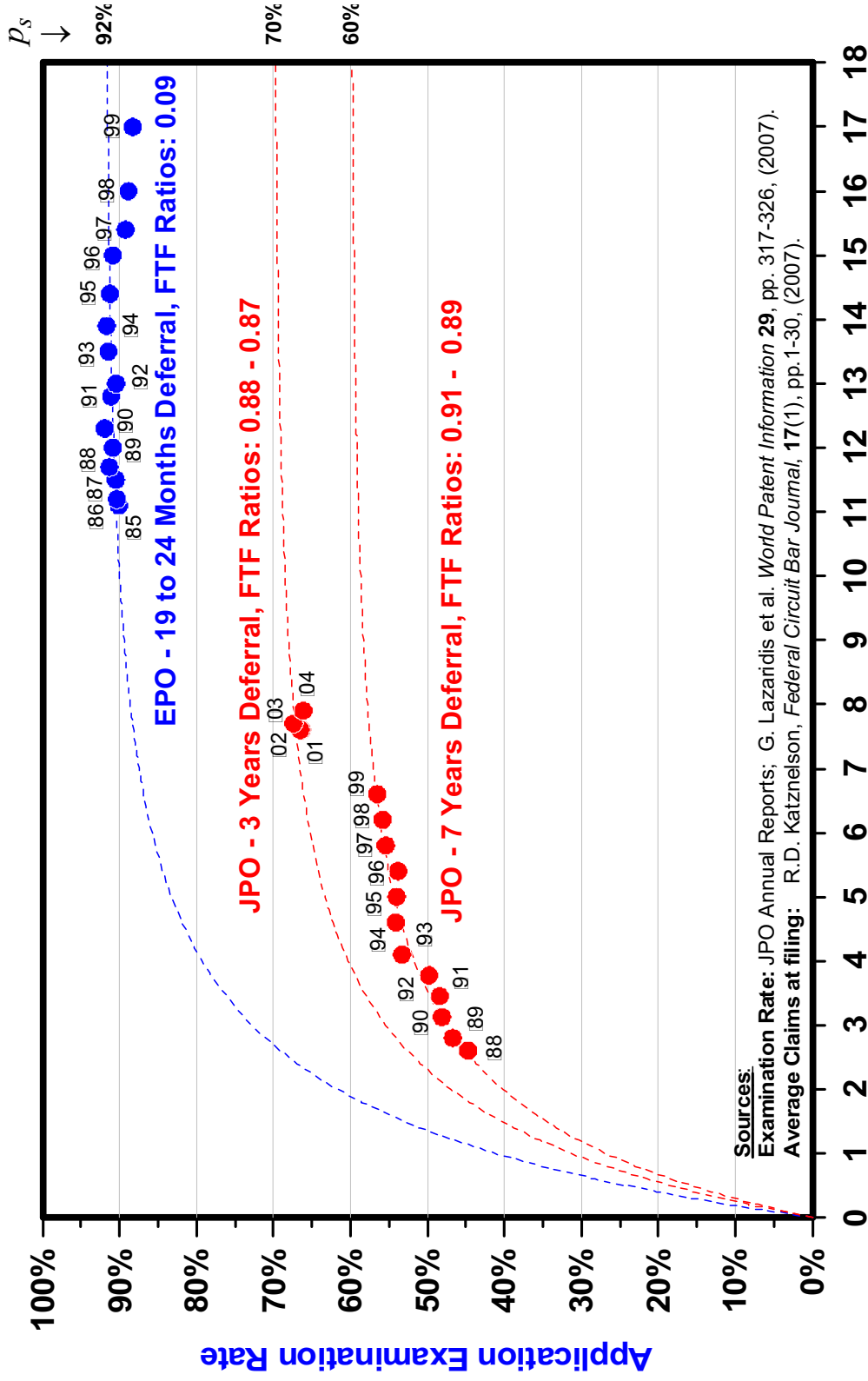
Examination-On-Request (EOR) Advantages

- **To Applicant:**
 - Permits deferral of the patenting decision until the technology features and market opportunities are better understood.
 - Defers or saves user fees and even larger patent prosecution costs.
- **To USPTO:**
 - Examination workload savings.
 - Avoid examining claims that the applicant does not need anymore.
 - Reduction in the number of RCE and Continuation applications.
 - Improved quality by receiving Search Reports and prior art from interested 3rd parties having special expertise in the art.
 - Financial gains by increased renewal fee yield. Examination investments would be made only in patents having longer renewal life.
- **To the Public:**
 - Overall pendency reduction and reduced patent term adjustments.
 - Earlier public notice for non-deferred and secret applications.
 - Elimination of R&D costs for ‘designing-around’ “clutter” claims that would otherwise issue under the current system.

**International experience at
national patent offices employing
Examination On Request (EOR)
or ‘Deferred Examination’
systems**

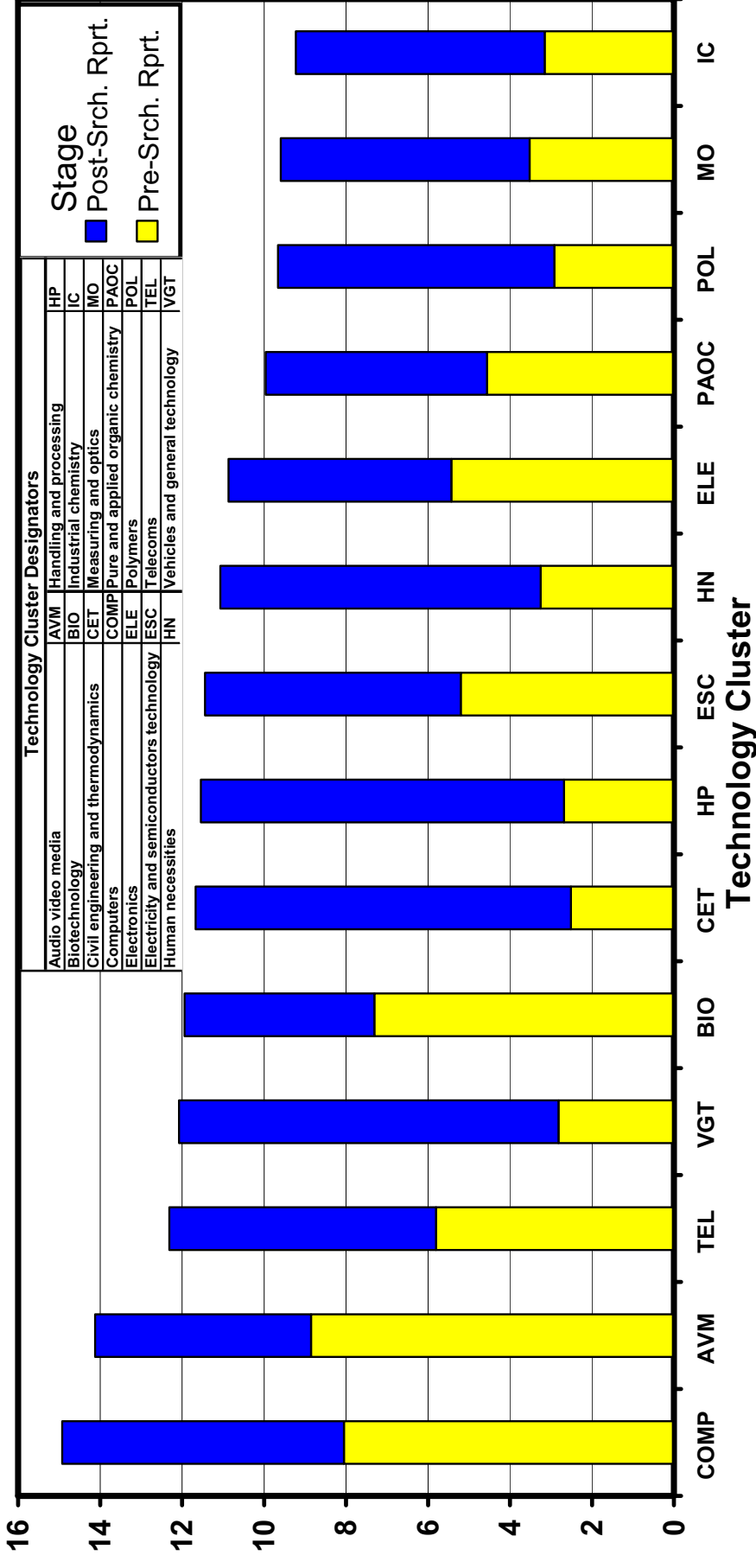
Examination rate by patent application year and by average number of claims at filing that year

Examination Rate at National Patent Offices



Substantial abandonment under EPO's EOR follows the Search Report publication (the last 6 months of deferral period)

Abandonment Rates Prior to Examination by Tech Cluster
 (Based on EPO Examination Deferral Average of 2 Years)

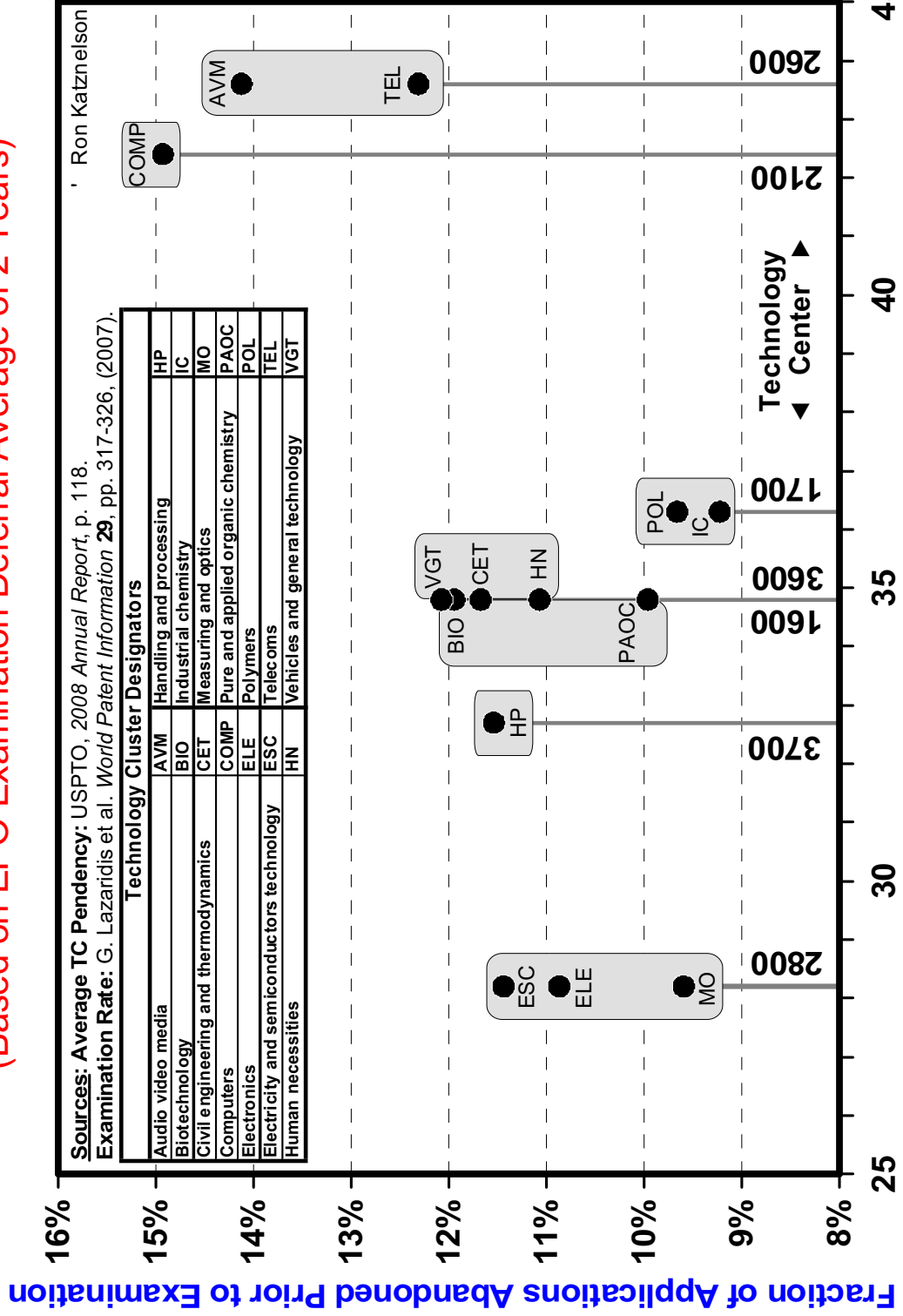


Sources: G. Lazaridis et al. *World Patent Information* 29, pp. 317-326, (2007)

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EOR's workload savings at USPTO would likely be higher where they are most needed

Abandonment Rate Prior to Examination by Technology Cluster
 (Based on EPO Examination Deferral Average of 2 Years)



A Proposal For Patent Examination-On-Request System For the United States

Examination-On-Request considerations

- This proposal works within the current statute and *requires no new legislation*
- Under the current statutory fee structure, estimated fees that may be deferred *upon a rule change* until a Request for Examination are:
 - \$540 Search Fee (Large Entity); \$220 Examination Fee (Large Entity); ~ \$440 Excess Claim Fees (Independent and Total claims fees, averaged on all applications¹). Total potential deferred \cong \$1,200.
 - Statutory fee incentive changes should be considered only if these existing incentives prove insufficient.
- [Slide 11](#) shows that substantial abandonment prior to examination is induced by the Search Report (SR). Preferably, U.S. EOR should also have an SR feature.
- Assuming a 3-year deferral system, an application dropout rate of 8%-11% with a claim dropout rate of 15%-25% would be expected. (See Appendix).
- A 20% claim dropout rate would more than compensate for USPTO's projected examination shortfall – halting and subsequently reducing pendency.

1. Based on FY2006 data produced in the *Tafas v. USPTO* (2007) case, corrected for recent fee changes and estimated average increase in claim count since FY2006.

Proposed EOR System –New Applications

- (a) Permit applicants to elect by simple checkboxes between two options upon filing a new application:
 - (i) Proceed to examination as in current rules or;
 - (ii) Defer examination until an express request for examination is filed within [3] years after the application filing date (Maximum Deferral Period).
- (b) Upon making a deferral election, an applicant is required to execute a *Declaration & Non-Exclusive Limited Power of Attorney*, for the purposes of the *ex parte* process described below and in subsequent slides.
- (c) Any delay due to applicant’s examination deferral would be subtracted from any patent term extension credit to the applicant under 35 U.S.C. § 154(b).
- (d) Applications subject to secrecy election under 35 U.S.C. § 122(b)(2)(B) are excluded from deferral and will be examined automatically as in current rules.
- (e) Upon a declaration under 37 C.F.R. § 10.18, payment of fees and pursuant to the *Limited Power of Attorney*, any third party can (anonymously) request a search and/or examination of a published application for which no examination request was filed. The requester may also submit prior art in accordance with 37 C.F.R. § 1.99 at that time.
- (f) Applications for which no request for examination is filed within the Maximum Deferral Period would be deemed abandoned. Appropriate statutory § 133 safeguards from abandonment would be provided through extension of time petitions and the like.

Proposed conditions for PTO's acceptance of applicants' election for new application deferral

- The application is in condition for publication and all statutory §111(a) requirements are complete except for
 - Payment of Examination Fee, Excess Claim Fees and Excess pages Fee.
 - Payment of Search Fee (Optional).
 - Submission of an IDS would be optional, but subject to an IDS fee if filed more than [14] months after the application filing date. [This pre-publication IDS condition benefits third parties who may trigger an examination and/or search based on the publication]
- The applicant has not filed a nonpublication request under §122(b)(2)(B)(i), or has filed a request under §122(b)(2)(B)(ii) to rescind a previously filed nonpublication request.
- The Applicant executed and filed with the USPTO a **Declaration & Non-Exclusive Limited Power of Attorney** designating any third party to act on the Applicant's behalf as Applicant's authorized agent for perfecting the patent application under §111(a) at any time by:
 - Requesting examination;
 - Paying the Examination, Excess Claim and Excess pages Fees; and
 - Requesting a Search and paying the Search Fee, or submitting a Search Report [in the manner required under Accelerated Examination, see MPEP § 708.02(a)(I)(H)].

Proposed EOR System – Applications in backlog

- (a) An application already pending in PTO’s backlog would be selected as eligible for deferral if it meets the following conditions (Eligible Applications):
 - The application received no First Action On the Merits (FAOM).
 - The application is not subject to secrecy election under 35 U.S.C. §122(b)(2)(B).
 - The application was filed no more than [34] months prior to the EOR rule’s effective date.
- (b) Prior to a FAOM on Eligible Applications, the PTO would send a Refund Election Action to all applicants of Eligible Applications, requiring affirmative response within [60] days by electing one of the following options:
 - (i) Examination deferral election under which the applicant would receive a refund of the Examination Fee. The applicant would be required to make the application ready for publication and to execute a *Declaration & Non-Exclusive Limited Power of Attorney*, for the purposes described below and in subsequent slides. Examination deferral would be up to the Maximum Deferral Period after the application date.
 - (ii) Election for maintaining the application’s examination track, forgoing the Examination Fee refund.
 - The application would be abandoned due to failure to respond to the Refund Election Action after the statutory notice and response period.
- (c) Any delay due to applicant’s examination deferral would be subtracted from any patent term extension credit to the applicant under 35 U.S.C. §154(b).
- (d) Upon a declaration under 37 C.F.R. § 10.18, payment of Examination Fee and pursuant to the *Limited Power of Attorney*, any third party can (anonymously) request examination of a deferred published application for which no examination request was filed. The requester may also submit prior art in accordance with 37 C.F.R. § 1.99 at that time.
- (e) Applications for which no request for examination is filed within the Maximum Deferral Period would be deemed abandoned. Appropriate statutory § 133 safeguards from abandonment would be provided through extension of time petitions and the like.

Proposed Conditions For PTO's Extraction of Applications from the backlog queue for Deferral

- The application has received no FAOM and has been pending no more than [34] months.
- The application is in condition for publication and all §111(a) requirements are complete and
 - Applicant requested a refund of the Examination Fee, reversing §111(a) completeness.
 - Submission of an IDS would be optional at the Deferral Election date, but subject to an IDS fee if filed after the Deferral Election date.
- The applicant has not filed a nonpublication request under §122(b)(2)(B)(i), or has filed a request under §122(b)(2)(B)(ii) to rescind a previously filed nonpublication request.
- The Applicant executed and filed with the USPTO a **Declaration & Non-Exclusive Limited Power of Attorney** designating any third party to act on the Applicant's behalf as Applicant's authorized agent for perfecting the patent application under §111(a) at any time by:
 - Requesting examination and paying the Examination Fee; and
 - Submitting a Search Report [in the manner required under Accelerated Examination, see MPEP § 708.02(a)(I)(H)].

The proposed EOR system is cabined within the existing statutory framework

- No reach for agency *Chevron* deference is required because the proposed EOR system is within the intent and clear language of the statute.
- USPTO authority under 35 U.S.C. §2(b)(2) for promulgating the proposed EOR system is also supported by the legislative history of 35 U.S.C. § 41:

In 2003, the USPTO asked Congress to approve a new user fee structure specifically to enable the separation of the filing decisions from the search and examination decisions that applicants make. The USPTO submitted its fee restructuring proposal to Congress with specific language in the Administration’s proposed bill entitled “*United States Patent and Trademark Fee Modernization Act of 2003*”.¹ In support of its proposed legislation, the PTO submitted to Congress a “*Proposal to Restructure Patent and Trademark Fees and Practices for Fiscal Year 2003*”² detailing the user fee separation and breakdown. In fulfilling every aspect of the USPTO request, Congress specifically authorized the USPTO under the Consolidated Appropriations Act of 2004³ to charge separately for the user fee components, thereby enabling USPTO’s implementation of separate refunds and Examination On Request procedures. For example, prior to enactment, the House Report specifically identified the Examination Fee as payable later than the filing fee.⁴

¹ At <http://www.uspto.gov/web/offices/com/strat21/feebill.htm>

² At <http://web.archive.org/web/20031208101011/http://www1.uspto.gov/web/offices/com/strat21/action/sr1fr1.htm>

³ Pub. L. 108-447, 118 Stat. 2809 (2004). (Amends 35 U.S.C. § 41 in a manner that separates application fee into filing fee, search fee and examination fee to permit separate payments or refunds of examination and search fees).

⁴ See [H. R. Rep. 108-241](#), at 16 (2003) (“The examination fee, however, may be paid at a later time if paid within *such period* and *under such conditions* (including payment of a surcharge) *as may be prescribed by the Director.*” Emphasis added).

Fitting EOR Practice within the existing statutory framework – PTO and Applicants’ use of the authorized fee structure

- Deferral would result from PTO’s new rule-based “*scheduled acquiescence*”, triggered by an Applicant’s Deferral Election requesting to keep an application *incomplete* under § 111(a):
 - § 111(a)(3): “The application must be accompanied by the *fee required by law*. The fee and oath may be submitted *after* the specification and any required drawing are submitted, *within such period and under such conditions*, including the payment of a surcharge, *as may be prescribed by the Director*.”
 - “Fee required by law” pertinent to deferral include § 41(a)(3)(A) – Examination Fee; § 41(a)(1)(B) – Excess claim fees; § 41(a)(1)(G) – Excess pages fees; and § 41(d)(1)(A) – Search fee.
- Note also that, whereas the statute requires that the filing fee be paid “*On filing* each application...” § 41(a)(1)(A), no such requirement pertains to the other fees listed above.¹

1. See also H. R. Rep. 108-241, at 16 (2003) (“The examination fee, however, may be paid at a later time if paid within *such period and under such conditions* (including payment of a surcharge) *as may be prescribed by the Director*.”)

Fitting EOR practice within the existing statutory framework – *Patent Term Adjustments*

- Because Patent Term Adjustments (PTA) due to USPTO delays in First Action under §154(b)(1)(A) are keyed-off the date on which an application is made complete under §111(a), applicants cannot receive PTA credit for the deferral period prior to First Action under current law. See § 154(b)(1)(A)(i)(I).
- Because § 154(b)(1)(B)(iii) excludes from PTA credit “any delay in the processing of the application by the [USPTO] *requested by the applicant.*”, issuance of patents with more than 3 years pendency would not entitle applicants to PTA credit due to a delay attributable to their election to defer examination.
- Note also USPTO’s general authority in § 154(b)(2)(C)(iii):
 - “The Director shall prescribe regulations *establishing the circumstances* that constitute a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application.”

Fitting EOR practice within the existing statutory framework – “*unperfecting*” backlog applications

- Under the current statute, the PTO actually has no authority to suspend the examination of an application that meets the statutory requirements:
 - “The Director *shall* cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Director *shall* issue a patent therefor.” § 131.
- Moreover, having paid all fees and having complied with §111(a), applicants would have very little incentive to defer examination of an existing application in the backlog.
- However, Applicant’s request and receipt of a refund of the Examination Fee would reverse §111(a) completeness of the application. The search fee for Eligible Applications may not be refundable because searches might have commenced on such applications prior to a FAOM.¹ [Depending on PTO’s financial considerations, an offer to refund the Excess Claim and Excess Pages Fees might also be appropriate to increase applicants’ incentive to defer].
- Since examination would be deferred and the Examination Fee would be paid upon later commencement (or may never be required), USPTO’s general authority to issue refunds therefor are provided by statute: “The Director *may refund any fee* paid by mistake or any amount *paid in excess of that required.*” § 42(d).
- Major drop-off savings to the PTO may come from applicants who would not respond to USPTO’s Refund Election *Action*. Authority for such abandonment prior to FAOM is provided by statute “[u]pon failure of the applicant to prosecute the application within six months after *any action* therein...” § 133.

1. However, the USPTO resolved this issue, permitting such refunds in its Search Fee Refund rules. See [71 Fed Reg. 12281](#) (Mar. 10, 2006).

Delayed Public Notice Concerns

- Third parties may request examination in order to prevent a patentee from holding off prosecution of an application that others find problematic and in need of early patentability resolution.
- Secret applications would not be deferred.
- Public notice argument as to the 18 months delay in third-parties' ability to request examination is particularly moot in view of the longer FAOM delays.¹
- Assertion that EOR “harms innovators due to delays in public notice of patent scope” is speculative folklore, unsupported by facts or analysis. *See next slide.*

1. First Office Action average pendency is currently at 25.6 months, and growing. *See* USPTO's FY 2008 Annual Report, at page 62.

Given substantial USPTO workload savings of EOR, those objecting to it on grounds of “harm to innovators due to delayed public notice” must bear the burden of showing that EOR’s public notice net effects are harmful

- Without EOR’s workload savings, public notice by *all* issued patents would be delayed *further* due to runaway pendency increases (see next slide).
- Under EOR, every deferred application causes *all* later applications to move out of turn *ahead* in the examination queue, resulting in *earlier* public notice for these *other* applications. Are public notice delays in deferred applications *really* more harmful than the *benefits* of the *earlier* public notice in other issued applications?
- Because secret applications under §122 election would not be eligible for deferral, they would *all* move ahead in the examination queue and would publish earlier than under the current examination system. Therefore, any public notice harm from secret “submarine” patents would be *reduced* under the EOR system.
- The EOR system would enable some direct filing of Nonprovisional deferred applications instead of using the current practice of Provisional applications. The former type would be published *earlier*, advancing the public notice by one year.
- Without EOR, innovators are taxed by having to invest R&D in non-infringing solutions “designing-around” patent claims that would have never issued under an EOR system. This major public notice harm would be *eliminated* under EOR.

