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Sent: Thursday, January 26, 2006 1:03 PM

To: AB93Comments; AB94Comments

Subject: Examination on Challenge: A Proposal for Improving the Patent System

Dear Sir,

Thank-you for providing an excellent overview of current patent operations at the 2005 PTO Day Conference.

Please find attached document titled "Examination on Challenge:A Proposal for Improving the Patent System", whereby timely in-depth substantive examination is provided, after examination of formalities, only for the about 3 to 4% of commercially interesting patents as determined by a request for examination from a third party with legitimate business interests willing to pay enhanced Search and Examination fees.

This document is to be published in the National Association of Patent Practitioner's newsletter, "The Disclosure."

Thank-you in advance for your time and attention,

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Examination on Challenge: A Proposal for Improving the Patent System

By Immanuel Freedman, PhD, MIEEE†

Introduction

The United States Patent Office (USPTO) is currently overburdened. Pendency of First Action on the Merits (FAOM) is up to 106 months in high inventory art areas such as Interactive Video Distribution (Table 1). Considering the 21st Century Strategic Plan [1], new Utility, Plant, and Reissue (UPR) patent applications are currently growing about 2.6% faster than the USPTO FY05 target, and the number of UPR disposals by examiner allowance, abandonment, or following a board decision is currently below the USPTO FY05 target [1,2]. About 28.3% of USPTO Examining Corps effort is currently devoted to rework first actions, excluding divisionals, and the annual rate of attrition among Examiners has reached about 11.5% so that about 26% of the Examining Corps are relatively inexperienced or new hires.

For many small businesses and start-ups, long pendency to FAOM delays first round Venture Capital Funding so that Venture Capitalists may prefer trade secret or defensive publication over patent strategy. The USPTO has recently proposed to resolve the above issues by making sweeping changes to the Patent Rules [3,4].

Background to Proposed Examination Procedure

Only about 3% of issued patents are profitable [5]. In Europe, where post-grant opposition procedures are available, only about 4.4% of all patents are of sufficient commercial interest to be opposed by third parties [6]. In the United States, less than 0.03% of patent application were disposed of by *inter partes* re-examination in FY05 [2], while intellectual property cases involving patent, trademark or copyright claims comprised about 2.7% of all new civil cases filed nationally in US District Courts in FY04 (<http://www.uscourts.gov/fcmstat>).

According to the American Intellectual Property Law Association (AIPLA), the average cost of patent litigation, including the costs of discovery, ranges from between \$500,000 and \$3,995,000 per party, depending on the amount at risk [6].

A survey of foreign patent systems [7] reveals that many industrialized nations have developed second-tier patent systems such as short-term patents, utility models, and certificates of utility. While these second-tier systems purport to enhance intellectual property solutions available for short-term protection of rapidly developing technologies and minor inventions, a recurring theme is registration of the invention after formality examination, combined with substantive examination on the merits when requested by applicants or third parties.

Focusing the USPTO Examining Corps on the less than about 10% of commercially viable applications, so that each application could receive search and examination effort at a level comparable to the typical level made by an applicant's legal representative (40 to 100 hours, up from the typical 23 hours or less currently expended by the USPTO Examining Corps), should result in reduction of time pressure on the Examiners and increased financial resources sufficient to hire experienced examiners and technical experts at relatively high grade levels. Freeing sufficient resources to support a post-grant administrative opposition procedure, such as that recommended by the AIPLA [6], should deliver significant additional economic advantages for both applicants and potential litigants [8].

Proposed Examination Procedure

The proposed Examination Procedure includes some or all of the following steps:

- Collect the current filing fee from Applicant;
- Examine the application for formalities in accordance with current Office of Initial Patent Examination (OIPE) procedure;
- Issue a Filing Receipt if all formalities have been timely satisfied (or application goes abandoned);
- Publish application within 3 years (or application goes abandoned);
- Substantially increase Search and Examination fees—payable by third party requesters— to discourage concerted attack on published applications;
- Examine application on the merits only when requested by a third party with legitimate business interests willing to pay enhanced Search and Examination fees;
- Grant an interview with a docketed Examiner after a request for Examination has been filed by a third party requester and before FAOM, if the Examiner considers it useful;
- Provide a post-grant opposition procedure including expert testimony, oral hearings, limited discovery, limited motions, and short response periods (similar to interference practice);
- Identify the real party in interest but allow its name to be kept confidential in appropriate cases until such time as justice and fairness require disclosure;
- Allow post-grant opposition to be requested by third parties at any time before patent expiry.

Discussion of USPTO Proposed Rules

The Rules are proposed to be revised to require that second or subsequent continuation or continuation-in-part applications and second or subsequent requests for continued examination of an application include a showing why the amendment, argument, or evidence could not have been presented earlier.

Since the USPTO is aware of case law (See *In re Hogan*, 559 F.2d at 603–05, 194 USPQ at 565–66; and *Henriksen*, 399 F.2d at 262, 158 USPQ at 231) which suggests that the USPTO has no authority to place an absolute limit on the number of co-pending

continuing applications originating from a single application, why would the USPTO attempt to place a soft limit?

The USPTO is proposing to focus its initial examination on the claims designated by the applicant as representative claims [4]. The representative claims will be all of the independent claims and only the dependent claims that are expressly designated by the applicant for initial examination. The USPTO is also proposing that if an application contains more than ten independent claims, or if the applicant wishes to have initial examination of more than ten representative claims, then the applicant must provide an examination support document that covers all of the independent claims and the dependent claims designated for initial examination.

In detail, Proposed Rule Section 1.75(b) (introductory text) is proposed to be amended such that unless a dependent claim has been designated for initial examination prior to the application being taken up for examination, the examination of such dependent claim may be held in abeyance until the application is otherwise in condition for allowance. Furthermore, Section 1.75(b)(1) is proposed to provide that an applicant must provide an examination support document in compliance with Section 1.261 that covers each representative claim if either: (1) the application contains, or is amended to contain, more than ten independent claims; or (2) the number of representative claims is greater than ten.

Clearly, selecting representative claims at the outset narrows the issues at a time when the marketplace significance of individual claims is not well understood and there is reasonable concern that negative inference will be drawn as to the non-designated claim(s).

Current post-*Festo* [9], Low-Profile Common-Denominator (LP CD) patent drafting techniques (as advocated by the Patent Resources Group (<http://www.patentresources.com>)), suggest filing a large number of picture claims in multiple statutory classes for easy understanding by the Court of Appeals for the Federal Circuit (CAFC).

The USPTO is further proposing to revise Rule Section 1.78(b) [3] so that when an applicant (or assignee) files multiple applications with the same effective filing date, a common inventor and overlapping disclosures, the USPTO will presume that the applications contain patentably *indistinct* claims. In such a situation, the applicant must rebut this presumption by explaining to the satisfaction of the Director how the applications contain only patentably distinct claims, or submit the appropriate terminal disclaimers and explain to the satisfaction of the Director why two or more pending applications containing “conflicting” or patentably indistinct claims should be maintained.

It seems more likely that many applicants (or assignees) will attempt to circumvent the above-proposed amendments to Section 1.75(b) by filing multiple applications with the same effective filing date, a common inventor, and overlapping disclosures containing patentably *distinct* claims.

Proposed Rule Section 1.261 requires an examination support document that amounts to a detailed patentability opinion, prescribing a non-extendable one month time period to correct deficiencies perceived by the Examiner. This creates a roadmap for infringers and potentially sows seeds of destruction for litigation, potentially inconsistent with adversarial justice.

The proposed examination support document rises to the level of a detailed validity analysis of similar scope to an invalidity opinion currently costing about \$10,000 to \$20,000 rather than the \$2,500 economic burden to the applicant indicated by the USPTO [4].

Conclusion

The Examination on Challenge approach as suggested herein would improve patent quality by focusing examination resources on commercially viable patents as determined by the request for examination by an interested third party.

Table 1. Inventory by Art (Examples taken from [2])

High Inventory Art Areas	Months of Inventory*	Low Inventory Art Areas	Months of Inventory*
1614, 1615, and 1617 – Drugs, Bio-affecting and Body Treatment	57-65	1620 – Organic Chemistry	18
1753 – Radiation Imagery	39	1734 – Adhesive Bonding and Coating Apparatus	13
2127 – Computer Task Management	54	2125 – Manufacturing Control Systems and Chemical/Mechanical/Electrical Control	13
2611 – Interactive Video Distribution	88	2651, 2653 – Information Storage and Retrieval	14
2836 – Control Circuits	42	2831 – Electrical Conductors	8
3620 – Business Methods	27 – 106	3651 – Conveying	11
3731 and 3737 – Medical Instruments, Diagnostic Equipment	44-51	3742 – Thermal and Combustion Technology	8

*The number of months it would take to reach a first action on the merits (e.g., an action addressing patentability issues) on a new application filed as of Jan. 2005 at today's production rate. Today's production rate means that there are no changes in production due to hiring, attrition, changes to examination processing or examination efficiencies, and that applications are taken up in the order of filing in the given art unit/area.

References

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6. Kirk, M. K. (2004, June 24). Statement before the *Subcommittee on Courts, The Internet, and Intellectual Property; Committee on the Judiciary*; U.S. House of Representatives, retrieved Jan 7, 2006 from <http://www.aipla.org>
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8. Levin, J. & Levin, R. *Patent Oppositions*, (August 1, 2002). Yale Law School. retrieved Jan 7, 2006 from <http://lsr.nellco.org/yale/lepp/papers/283>
9. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co*, Supreme Court, Docket No. 00-1543, 535 US 722 (2002) 234 F.3d 558.

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