

Let's Run the PTO as a Business

ALLEN E. HOOVER¹ OF BANNER & WITCOFF LTD.

You are the CEO of a large, publicly traded company with sales of almost \$2 billion. In recent years, demand for your company's products has surged. In addition, some of your customers are placing larger, more complex orders that require extra effort to fulfill. For these reasons, customers are starting to wait longer for order fulfillment. Your company's resources are becoming stretched a little thin, and you are becoming worried about this. The quality of your company's products is generally very good, and in fact your company's employees are regarded as being preeminent in the field. Nonetheless, a few concerns in this area have been raised, and you believe that these concerns are due to over-taxing of your company's resources. What do you do? Here are two possibilities:

(A) Make an effort to increase capacity to meet the demand in a responsible and reasonable manner. Start hiring. Because attrition is inevitable, make plans for sustained growth. You may need to raise prices a little, especially for the more complicated product orders.

(B) There's just too much demand for your product. Make it difficult and more complicated for customers to place orders. For the more sophisticated orders, make the cost prohibitively expensive. Your customers have purchasing agents. Think of ways to place the purchasing agents at personal risk when dealing with your company, so they are discouraged from working with you.

If you answered (A), you are ready to be a CEO. If you answered (B), you are a senior official of the United States Patent & Trademark Office.

The PTO was recently enjoined (preliminarily) from introducing a major new rules package, known as the "Claims and Continuations Final Rule."² A few companies supported this rules package, but otherwise the patent community was united in its opposition. All but a few of the formal comments on the proposed rulemaking were strongly negative.³ There are hun-

dreds of websites, blogs, and articles that contain scathing criticism of the new rules but essentially none that support them. In the lawsuit filed to enjoin the rules,⁴ several *amici*, including major players such as the AIPLA and IBM, filed briefs and supporting materials opposing the PTO. No one supported the PTO.

The PTO's new rules would have limited the number of claims that could be made in a patent application, and would have limited the number of continuation applications that could be filed. For applications that exceeded a relatively modest number of claims, the applicant would have had to file an "examination support document." The examination support document would require the applicant (or the applicant's attorney) to make a search of the prior art, but the rules placed no limitation on the scope of such search and provided no guidelines for how such search might be conducted. The attorney also would be required to make several about the patent application and about the state of the art. Some of these representations had to be unqualified statements about the prior art, notwithstanding the fact that it's impossible to learn of every conceivably relevant prior patent or publication, and notwithstanding the fact that reasonable minds may differ as to the content of a complex technical publication. The cost for such an examination support document was estimated to average \$39,000 and to possibly range as high as \$130,000.⁵

No patent attorney would want to submit an examination support document, because of the significant work entailed, because of the enormous exposure to an inequitable conduct charge, and, perhaps most of all, because of the significant risk of being charged with legal malpractice. The purported "guidelines" set forth for the examination support document were very vague. One mistake could cause the PTO to reject the document, easily leading to tens of thousands of dollars of extra work and an unhappy client. It's quite conceivable that a minor mistake could lead to forfeiture of the patent application and an instant malpractice lawsuit. Even if the PTO accepted the document, any subsequent litigation of that patent would very likely incur a charge of inequitable conduct for the attorney and

a possible malpractice lawsuit. Any attorney faced with the submission of an examination support document would place himself or herself at personal risk.

The requirements for the examination support document went far beyond the level of effort made by patent office examiners. In some cases the examination support document would be required to be hundreds of pages long. For this reason, most commentators (myself included) believe that that the PTO doesn't really expect the examination support document to assist it in its examination. Instead, this document is a makework exercise designed to discourage applicants from filing more claims than desired. Compare the fees charged by the PTO for searching and examining a patent application, which start at around \$500 for a small entity, to the costs for preparing an examination support document, and compare the record generated by the PTO to the detail required of the examination support document.

As of this writing, the PTO has announced new rules relating to the submission of an information disclosure statement (IDS). The IDS is a vehicle for submitting to the PTO information that may be material to the patentability of the invention claimed in a patent application. The PTO has kept the new rules under wraps for now, but it is widely believed that the rules will encourage applicants to *withhold* potentially material information from the PTO. This requirement might be avoided via the submission of another lengthy, expensive document that far exceeds the examination record generated by the PTO. Again, this seems to be a makework exercise not needed by the PTO, and again, this document would expose the attorney to significant personal risk. These rules also are opposed by most of the patent community. It is not clear how the quality of examination is supposed to improve by withholding potentially material information from the PTO. What is clear is that these rules, if passed, will create substantial additional effort for patent applicants, and will enhance the inequitable conduct and malpractice risks for the applicants and their attorneys.

The PTO recently also announced rules for curtailing *Markush* practice⁶ and for making the appeal process more complicated.⁷ These rules proposals have attracted less attention, although many comments opposing these rules have been submitted.⁸ Several aspects of the new

appeals rules seem to be addressed towards creating makework. For instance, although perhaps well intentioned in some respects, the new appeals rules would require applicants to include several portions of the record in a section of the appeal brief, even though these materials are readily available electronically in the PTO's own image file wrapper.

Why did the PTO introduce these rules? Undoubtedly, the intent of these rules packages is to increase the cost, complexity, and risk of dealing with the PTO to thereby discourage certain practices. These rules would create substantial additional work for most patent applicants, with little benefit to the PTO. According to the PTO, the "Claims and Continuation Rules" were to address fewer than 12,000 applications,⁹ generally estimated to be about 2.7% of pending applications. Similarly, the IDS rules are purportedly intended to address a very small number of applicants who may be abusing the IDS process by submitting hundreds of irrelevant references.¹⁰ One wonders what rules package the PTO would formulate if it thought it could make a more significant dent in its backlog.

It remains to be seen whether the claims and continuation rules will eventually come into effect. In the meantime, many suggestions have been proposed for addressing the PTO's backlog of pending patent applications. The tenor of most of these suggestions is that the PTO should be run as one might run a *business*, one that seeks to encourage its customers (patent applicants) to do business with the PTO, and one that acts efficiently. Here are a few of the suggestions that I've heard.

HIRE, HIRE, AND HIRE

The PTO has asserted that it "can't hire its way out" of the backlog. I think that that's correct in the short term but wrong in the long term. Simply put, there are an insufficient number of PTO examiners to handle the PTO's caseload, and this situation will be exacerbated in future years unless the PTO takes long-term steps to address it. The PTO's backlog took a long time to create, and is partially due to Congress's diversion of fees from the PTO in many of the last several years.¹¹ It will take the PTO a few years to hire and train a sufficient number of examiners to meet the growing backlog. Nonetheless, increasing capacity, rather than attempting to reduce demand, is needed.

Commissioner Doll has proposed opening one or more satellite PTO offices, such as in northern California or the Midwest, to seek out examiners who do not want to move to the D.C. area. I think that's a great idea. Many government agencies operate out of multiple locations, and the PTO is well suited to so operate.

Some commentators characterize the shortage of examiners as being an examiner *retention* problem as opposed to an examiner hiring program. Satellite offices in places other than the D.C. area would help here as well. Undoubtedly there are some examiners who would prefer to move to other parts of the country.

SEEK INPUT BEFORE IMPLEMENTING CHANGES

The recent rule change proposals remind me of earlier wheel-spinning by the PTO. Several years ago, the PTO introduced the first version of its electronic patent application filing software (called "EPAVE" and "PASAT"). Anyone who remembers this will agree that it was a disaster. The designers of this software obviously had never talked to anyone who had ever filed a patent application. The software was clumsy and extraordinarily difficult to use, and attorneys were forbidden to delegate the application filing to a secretary or paralegal. In every case, attorneys were required personally to perform several additional hours of clerical work after completing the patent application, as opposed to simply handing the signed application to a secretary for copying and filing. Not surprisingly, the software was a flop.

Only after determining the needs of its customers did the PTO come up with the new – and vastly improved – electronic filing software. But all of the money and efforts spent on EPAVE and PASAT were wasted, and it took a few extra years before the PTO introduced usable electronic filing procedures. Had the PTO actually talked to any practitioners, useful electronic filing software would have been available from the outset.

Recent events with the PTO's proposed rulemaking also seem to be a big waste of time and effort. I'll bet that many if not all portions of the "Claims and Continuation Rules" will end up permanently enjoined or significantly revised. The PTO did not post the rules for notice and comment before adopting them (though it did post an earlier version). It knew that most practitioners and most of the interested public opposed

The image shows a red graphic with a white 'N' logo in a square. To the right of the logo is a list of services: IP Support, Demonstratives, Digital Photography, Multimedia and Animation, and Utility, Design, and Trademarks. Below the list is the text 'OVER 40 YEARS OF EXPERIENCE', the company name 'NORTHERN VIRGINIA GRAPHICS, INC.', contact information '800-929-3780 | 703-538-3630 | Fax: 703-538-3653', and the website 'www.nvg-inc.com'.

the rules. The PTO knew that the rules would be challenged, and in fact gave the rules only a 50-50 chance of surviving a challenge.¹² Why pass rules that most of your customers oppose, and that you are 50% sure are illegal?

The PTO should actively seek input from many sources – large companies, small companies, practitioners, examiners, and bar associations – before passing sweeping rule changes. It should do so by formal channels under the Administrative Procedure Act and by informal channels such as roundtable discussions. It should listen to its customers. I think in this case the PTO paid lip service to the "notice and comment" required by the Administrative Procedure Act, but didn't really try to react to what most of its customers were telling it: they hated the letter and spirit of the new rules. Had the PTO tried to accommodate its customers, these rules would never have passed, and all of the effort expended by the patent bar and by the PTO in addressing the rules would not have been wasted.

ALLOCATE COSTS AND EXAMINER CREDITS

The PTO is undoubtedly correct that complex applications, such as those with excessively long claim sets or complex file histories, cost more to prosecute than simpler applications. Likewise, information disclosure statements with 250 references undoubtedly cost more for the PTO to analyze than those with only 5 references. Yet, with few exceptions, the PTO makes no effort to recover these costs from applicants.

If an applicant is presenting a patent application that costs the PTO more to examine, the PTO should charge more for that application. Any business would operate in this fashion. Perhaps the PTO could charge a greater fee for a continuation



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application than for a first application (although the PTO probably expends less effort examining a continuation). Perhaps a fee could be charged for each reference submitted in an IDS. If the fee were \$10 per reference, the PTO would charge \$2500 for the 250-reference IDS – more than twice what the PTO now charges in fees for searching and examining an application, and surely more than enough to allow the PTO to recoup its extra examination costs. Perhaps the filing and examination fees could be increased and the issue fee decreased. It must cost more to examine an application than to issue it, yet the current issue fee (\$1,440.00 for a large entity) is more than twice the fees for search and examination. Undoubtedly other ways could be found to allocate costs fairly among applicants.

Also, with limited exception examiners don't get extra "credit" for examining a complex application. This can't be good for examination quality; an examiner who feels limited to a certain number of hours may spend less time than needed on a complicated patent application or lengthy IDS. If it costs the PTO more to examine a complex application, give the examiner more "counts" or other credits for this application.

INSTITUTE A DEFERRED EXAMINATION PROCEDURE

It is common for companies to abandon a research effort after a patent application has been filed. The existence of the application is still of benefit for defensive prior art purposes, but after the application is published, it serves as prior art under 35 U.S.C. 102(a) and (b), and there is often limited need to pursue the patent further. Nonetheless, because the filing costs are "sunk," there is little incentive to abandon a pending application. The result is that the

PTO may be examining more applications than necessary.

If the PTO allowed for deferred examination, and especially if the search and examination fees were a little higher, many companies would defer examination. That would allow the PTO to work on the backlog of other cases, and would lead to fewer cases being examined when unimportant cases are abandoned. This is the rationale behind the deferred examination procedure in other countries; in Canada, for example, it is estimated that as many as 30% of applications are abandoned before examination.

The "deferred examination" procedure is not without its critics. One principal criticism is that deferred examination increases uncertainty for competitors, because it takes longer for the competitor to know what claims will issue. I think that, on balance, a deferred examination procedure will decrease average application pendency and will thus mitigate, not exacerbate, this potential problem.

COMPETE FOR THE CORPORATE DOLLAR – AND THE SMALL INVENTOR'S TOO

There is only one agency that grants patents – with whom would this agency compete? In fact, the PTO is competing for a portion of the corporation's research and legal budget. If it makes itself too difficult to deal with, less money will be spent at the PTO and more money spent on other things. Perhaps this would lead to less spending on research.

As a fee-funded agency, the PTO needs user fees to survive. In this respect, it's like all other businesses. The PTO should recognize this, and should welcome new business, not shun it. This is not to suggest that the PTO should issue more patents, or should lower its examination standards.

Rather, the PTO should strive to make its procedures more streamlined and user-friendly, not less so.

Also, PTO should keep its smaller customers in mind. It should not make rules that are onerous and that discourage small entities from filing.

In summary, the PTO should operate as a business. It should welcome customers, should seek input from concerned parties before passing sweeping rule changes, and should allocate costs as would other businesses. By increasing capacity and streamlining its procedures, not by attempting to reduce demand, the PTO will be able to deal effectively with its backlog, and, more generally, to perform its statutorily mandated duty. **IPIT**

ENDNOTES

1. Please attribute the comments in this article to me and not to my firm, Banner & Witcoff, Ltd, or its clients. (C) Copyright 2007 Allen E. Hoover. All rights reserved. Please send any comments to me at ahoover@bannerwitcoff.com.
2. See Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications, 72 Fed. Reg. 46,716 (Aug. 21, 2007).
3. Comments Regarding Continuation Practice, http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/continuation_comments.html, (last visited Nov. 5, 2007); Comments Regarding Claims, http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_claims/claims_comments.html, (last visited Nov. 5, 2007).
4. *Tafas v. Dudas et al.*, No 1:07-cv-846-JCC-TRJ, consolidated with *SmithKline Beecham Corporation et al v. Dudas et al.*, ___ F. Supp. 2d ___, No. 1:07-cv-01008-JCC-TRJ, 2007 WL 3196683, (E.D. Va., October 31, 2007).
5. Richard B. Belzer, Cost of Complying with the Proposed IDS Rule, Office of Mgmt. & Budget, Meeting (Oct. 18, 2007).
6. *Examination of Patent Applications That Include Claims Containing Alternative Language*, 1322 Off. Gaz. Pat. Office 22 (September 4, 2007).
7. *Ex Parte Appeals, Notice of Proposed Rule Making*, 1321 Off. Gaz. Pat. Office 95 (August 21, 2007).
8. See <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/> (last visited November 5, 2007).
9. *Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims*, 1302 Off. Gaz. Pat. Office 1318 (Jan. 24, 2006).
10. *Changes to the Information Disclosure Statement and Other Related Matters*, 71 FR. 131 (July 10, 2006).
11. See, e.g., Pub. L. No. 105-358, § 3(b), 112 Stat. 3272, 3273-74 (1998); see generally *Figueroa v. United States*, 466 F.3d 1023, (Fed. Cir. 2006).
12. Letter from Birch, Stewart, Kolasch & Birch, LLP to Freedom of Information Act Officer, United States Patent & Trademark Office, (November 16, 2006) (on file with author) (referencing comment by Commissioner Doll at the AIPLA Annual Meeting of October, 2006).