

**Fordham 2010 Conference**  
**April 8, 2010**  
**Opening Speech by David J. Kappos**  
**Panelist: Harold C. Wegner**

Questions for Mr. Kappos based upon the paper –

**MAKING PATENT WORKSHARING WORK:  
NEEDED COMPLEMENTARY REFORMS**

by  
Harold C. Wegner

1. You have outlined an impressive forward-looking position to seek “patent worksharing” cooperation from other Offices to deal with quality and backlog issues. Manifestly, it takes deferred examination of several years for “second office” patent worksharing applications to reap the fruits of a foreign “first office” search.

**Question:** How do you reconcile your program for patent worksharing, including the Patent Prosecution Highway and any IP 5 initiatives, with Secretary of Commerce Gary Locke’s goal as stated in the FY2011 budget that the PTO will reach an *average* pendency dated from the first priority filing date of 20 months? And, what is the basis for Secretary Locke’s promise to Senator Mikulski in early March that the PTO with a \$ 2.3 billion annual budget would be on its way to an average *12 month pendency* (except for pharmaceuticals)?

2. The “count” system reform has eliminated examiner abuse that has forced applicants to file some RCE applications. Yet, the Patent Pendency Model that the Office has provided at least through the end of March 2010 has the PTO projection that even with the count system reform there will be a decrease of only two (2) percent per year in RCE filings in each of the next two years. This will leave the Office with an unacceptable burden on the order of 100,000 RCE applications per year.

**Question:** What actions do you propose to take to eliminate RCE’s?

# MAKING PATENT WORKSHARING WORK: NEEDED COMPLEMENTARY REFORMS\*

Harold C. Wegner\*\*

## I. OVERVIEW

“Patent worksharing” represents a truly significant milestone that is now in the process of implementation through the prototype model of the “Patent Prosecution Highway”. Later this month in China the IP 5 meets for its second summit: The IP 5 holds the promise of a unified patent examination system for the major countries of the world, particularly the four largest filing countries of China, Japan, Korea and the United States. While the European Patent Office as the fifth member of IP 5 has gotten cold feet for even the Patent Prosecution Highway, national European offices led by Germany, the United Kingdom and Denmark have demonstrated a positive reaction to patent worksharing efforts.

Patent worksharing, if properly implemented, can greatly facilitate the more efficient examination of patent applications in the United States. Patent worksharing necessarily implicates deferred examination for a significant percentage of patent applications particularly of foreign origin as the United States, as a “second office”, must await examination results from a “first office”

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examination. Even without patent worksharing, deferred examination can play an important role in cutting down the backlog.

Yet, the reality necessarily must be a continued backlog of several years for most cases, while applicants should have the option of immediate examination for those cases where such prompt processing is needed. Furthermore, there are problems with a backlog that the United States has yet to solve.

This paper addresses complementary changes in the patent system that must be made in order to optimize the impact of both patent worksharing and deferred examination on overall reduction of the backlog and increasing efficiency of the examination process.

The one-size-fits-all approach to examination forces everyone to meet information disclosure requirements at an early date while only a handful of applicants need an immediate examination. A major reform needed to make patent worksharing work is to let the applicant determine when he wants examination, whether immediate or otherwise. *See § II, Adding an Effective Examination Trigger.* Additionally, the Office should make certain requirements mandatory so that all applicants are good citizens who file clean cases, provide prior art and otherwise help the Office. *See § III, Putting Teeth in the Trigger Requirements.* Deferred examination *can* be an important tool to reducing the backlog, but only if complementary reforms are made that will push applicants to abandon commercially unimportant cases. *See § IV, Deferred Examination for Effective Triage.*

Experience with overseas examination systems has shown that merely requiring payment of a fee – or giving a refund – may not be a sufficient *business* incentive to compel abandonment of commercially unimportant cases prior to examination. See § IV-A, *Deferred Examination, without more, Does not Work*. Instead, business organizations must be given incentives to abandon their applications by forcing time consuming actions to *maintain* a case for examination. See § IV-B, *Incentives to Make Deferred Examination Work*. To be sure, there are serious problems with deferred examination under the present system which cannot be overlooked. While an applicant should be able to *defer* the start of prosecution, once prosecution commences *then* the procedure should be unitary without endless continuing prosecution through unique American measures not available in any other country of the world. See § V, *Truly Compact One Shot Prosecution*. Solutions to the backlog problem are available. See § VI, *Better Solutions to Deal with the Backlog*.

One of the major problems has been the “submarine patent” where claims are tailored to post-filing developments of third parties. See § VI-A, *Fingerprint Claiming of Subsequent Developments*. Furthermore, if patent grant can be deferred for a considerable period on a voluntary basis, the applicant should not receive a windfall of patent term adjustment. See § VI-B, *Patent Term Adjustment*.

It is also clear that even without either “patent worksharing” or deferred examination the goal of a 12 or 20 month pendency from first filing should be available only to those who cooperate with the Office by requesting immediate examination and who accelerate responses to Office requirements. But, an overall *average* pendency of 20 months is a fantastic goal that can never be achieved. See § VII, *The Fantastic Goal of a 12 Month Average Pendency*. Today, fully 30 % of

all applications are RCE's that prolong prosecution in an inefficient manner as there is no real incentive for an applicant to join issues with the Office, given the safety valve of the RCE. "Count" system reform is acknowledged by the PTO as a failure to reform applicant abuse: It is incumbent on the Kappos Administration to immediately institute *regulatory* reforms of the RCE process. Elimination of RCE abuse will go much further to reducing overall pendency than the \$ 2.3 billion FY2011 budget request. *See § VIII, RCE Reform, A Necessary Integer for Reform.* The movement to patent worksharing improvements via the Patent Prosecution Highway, IP 5 and other measures have been largely independent of the current patent reform legislation in Congress. Indeed, it is difficult to say that the current "Manager's Amendment" in any way facilitates patent worksharing. *See § IX, The "Manager's Amendment" to S.515.*

## **II. ADDING AN EFFECTIVE EXAMINATION TRIGGER**

Today, there is a one size fits all requirement for a duty of disclosure being met within three months of filing. Applicants are forced to meet arbitrary deadlines that all too often leads to behavior that only causes churning and adds to the backlog such as the notorious practice of "RCE's" (requests for continued examination). Instead, applicants should be required to trigger examination with a request for examination – which could be as early as concurrently with the filing date – that would also trigger a concurrent deadline for meeting examination trigger requirements.

Applicants should be given as much time as they want to request examination but when they *do* request examination they should be prepared to fix up their application into a realistically allowable form. Claims should be examined so that frivolous claims are deleted and obvious errors are cleaned up. If the

application is in extremely poor English the applicant should amend the application to clean up the text to make it understandable (within the confines of a preclusion of new matter under 35 USC § 132). A not insignificant number of applications are filed as machine translations from a foreign language, without more, leading to gibberish which an Examiner should not be compelled to decipher.

If there are more than fifty claims in a case, the applicant obviously must have a *reason* for so many claims which can be shown through a claims chart that shows the relationship of the claims to each other and which will manifest why so many claims are needed – and help the examiner understand better how to examine the application.

### **III. PUTTING TEETH IN THE TRIGGER REQUIREMENTS**

Sadly, today there is a not insignificant percentage of bad actors who do not cooperate with the Office whether it is the failure to file an information disclosure statement or the failure to present a clean ready-to-examine application.

To the extent that the examination trigger requirements are not met, the Examiner should compel compliance at the pain of abandonment of the application: To the extent that a good faith effort is not made to meet the requirements for examination, the applicant should be warned that failure to comply with the requirements will result in abandonment of the application. *Fuji Photo Film Co. v. ITC*, 474 F.3d 1281, 1293 (Fed. Cir. 2007)(quoting *In re Bogese*, 303 F.3d 1362, 1368 (Fed. Cir. 2002) ("To be sure, an administrative agency cannot impose a penalty or forfeiture without providing notice."))

To the extent that there are, say, 200 claims in a case where there is neither rhyme nor reason for what turns out to be an obfuscation of the examination process, the examiner should simply reject all claims as being unduly multiplied:

“[A]pplicants should be allowed reasonable latitude in stating their claims in regard to number and phraseology employed. The right of applicants to freedom of choice in selecting phraseology which truly points out and defines their inventions should not be abridged. Such latitude, however, should not be extended to sanction that degree of repetition and multiplicity which beclouds definition in a maze of confusion. The rule of reason should be practiced and applied on the basis of the relevant facts and circumstances in each individual case.” *In re Flint*, 411 F.2d 1353, 1354 (CCPA 1969)(quoting *In re Chandler*, 319 F.2d 211, 225 (CCPA 1963); cf. *In re Wakefield*, 422 F.2d 897, 900-01 (CCPA 1971).

## **V. DEFERRED EXAMINATION FOR EFFECTIVE TRIAGE**

### **A. Deferred Examination, without more, Does not Work**

Deferred examination, without more, is not a solution to the backlog problem: Merely deferring the examination does not reduce the backlog at all but merely reorders the examination of cases. Deferred examination works to reduce the backlog only if there are appreciable gains through patent worksharing or voluntary abandonment of applications. The major benefit for cutting the backlog is through voluntary abandonment of applications.

At first blush, deferred examination, without more, would appear to be a way to cut down the backlog of pending cases: After several years, many – if not most – patent applications no longer command commercial interest on the part of the patent applicant. Sometimes, the prior art discovered in the course of prosecution of one of the several parallel patent applications will reveal new prior art that either destroys patentability or makes the scope of patentable subject matter too narrow to maintain interest. Or, product development may move in a different direction. Sometimes, the life cycle of the product is relatively short. In the case of regulated chemicals and biologicals, the great majority of once promising candidates are dead end projects as a particular product is either not chosen for the

regulatory gauntlet or in the case of a pharmaceutical fails to pass muster as to effectiveness or has side effects.

Yet, deferred examination, without more, will not be a backlog panacea. Unless there are incentives built into the system for an applicant to abandon an application deep into the pendency of the case, it is a much more efficient matter for the applicant to simply do nothing and await an examiner's action and *then* make a determination whether to proceed further. Even if there is an examination fee that must be paid to trigger examination late in the process, this alone will not work. Thus, a 1970 Japanese law created deferred examination that permitted an examination request up to seven years from the filing date (now shortened to three years). Yet, far too high a percentage of cases were continued through an initial examination vis a vis the number of inventions that remained actually commercially viable after seven years. Companies all too often found it easier either from a monetary or business standpoint to pay the examination fee than to let an application go abandoned at the end of the seven (now three) year period.

In Europe, there are sequential events with first a search report which is then followed by examination. Too few applicants have abandoned their applications after they have received their search report compared to the commercial realities of the remaining patent importance the application. In an extreme measure to encourage a higher abandonment rate after the search report has been issued, as from April 1, 2010, the EPO now gives a \$ 2,000 *refund* to applicants who voluntarily abandon their applications before the examination process commences.

It can thus be seen that a significant percentage of patent applicants who *should* abandon their applications before examination are not doing so because the decision has been made that it is a more conservative business approach to proceed

through examination and thus maintain pendency versus making a hard decision to abandon the application which may have to involve a committee from the business, international and research arms of a company.

### **B. Incentives to Make Deferred Examination Work**

In order to compel an applicant to make a *commercial* decision whether to maintain an application through examination the applicant must be compelled to actually devote time to the case to study the matter in great detail vis a vis simply paying a fee or getting a refund as an incentive.

Perhaps the best way to make deferred examination result in a high level of abandonments is the deferral of the examination trigger requirements: Now, if the applicant wants to have an examination, a significant investment in actual work is required vis a vis merely paying a fee or getting a refund.

## **V. TRULY COMPACT ONE SHOT PROSECUTION**

Perhaps the most important difference between the United States patent system and all other systems throughout the world is the unique ability of an applicant in the United States to refile applications literally forever, whether through the notorious RCE that was born through a recent statutory change or through continuing applications under 35 USC § 120. It is intolerable that fully one-third of all patent filings in the United States are refiles – either an RCE or a continuing application. There is no incentive for a clean prosecution and early presentation of evidence because the applicant always can refile a case. An overworked or under-budgeted patent department can simply refile a case to defer work. Churning of this nature is entirely unsatisfactory from a public policy standpoint.

There have been valid reasons to maintain RCE's and continuing applications as patent applicants may need to defer prosecution for a variety of reasons, but have been forced into a one-size-fits-all system whereby examination commences at the Examiner's pace and not at the time the applicant needs examination. Thus, it is imperative that the examination trigger system be instituted to let applicants determine when they wish to have an application examined.

The recognition of RCE and continuing application abuse is not new and, indeed, the Dudas Administration made a proposal to greatly reduce continuing application and RCE filings. *See Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications*, 72 Federal Register 46716, 46718-19 (2007)(Final Rule)(citing Mark A. Lemley and Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. Rev. 63, 64 (2004)). To be sure, the change in the rule was defeated first through litigation and then through the unilateral withdrawal of the final rule by the current Administration. The problems with the rules change were that the changes violated statutory rights established through case law and, more importantly, did not account for the need for applicants to defer examination.

## **VI. BETTER SOLUTIONS TO DEAL WITH THE BACKLOG**

### **A. Fingerprint Claiming of Subsequent Developments**

Perhaps the greatest evil of a backlog is that an applicant can have his or her case pending for many years during which time there are third party developments made by competitors to the same general technology but outside the scope of the applicant's claims. It is often possible, given the knowledge of

the later developed product, to tailor claims to fingerprint the new development either by eliminating a limitation from a claim or by bringing forward an entirely new claim, fully supported without introducing new matter.

The solution, here, is not to end the backlog, but, rather to introduce a system of legal intervening rights in favor of the creator of a development that is claimed only after that development is made. This is not a new proposal. See Harold C. Wegner, *A Comparative View of American Patent Reform*, p. 39 n.68, Fourteenth Annual Conference on International Intellectual Property Law and Policy, Fordham University School of Law, April 20-21, 2006, New York (discussing David Westergard, *Remedying the Growing Abuse of the Patent System Through Targeted Legislation*, p. 2, Thirteenth Annual Conference on International Intellectual Property Law and Policy, Fordham University Law School, New York, March 31-April 1, 2005.)

## **B. Patent Term Adjustment**

If there is deferred examination of any kind it is imperative that no patent term adjustment windfall be a part of any such reform. Otherwise, every pharmaceutical applicant will defer every case to a new chemical entity for as long as possible to obtain the maximum patent term, way beyond the 20 years contemplated under the statute.

## VII. THE FANTASTIC GOAL OF A 12 MONTH AVERAGE PENDENCY

### A. Secretary Locke's 12 Month Pendency Promise

A fantastic goal has been announced: By FY2014 the United States will reach a 12 month overall average pendency of a patent application from first priority filing all the way through patent grant – including priorities for provisional and foreign applications under 35 USC § 119 and parent continuing priorities under 35 USC §120 up through printing of the patent. This ambitious promise was made by Secretary of Commerce Gary Locke who enthusiastically told the Senate Appropriations Subcommittee that in exchange for a FY2011 PTO budget of \$ 2.3 billion, the PTO will be on the path to reach a goal of 12 month total pendency (except for FDA regulated products) by FY2014. United States Senate Committee on Appropriations, Commerce Subcommittee, March 4, 2010, response to question from Chairwoman Mikulski

<http://appropriations.senate.gov/webcasts.cfm?method=webcasts.view&id=b32f6718-047a-458b-a142-2982bc820bba>. In advance written testimony, the Secretary made an only slightly less ambitious promise: “The [Obama FY2011] Budget includes \$2.3 billion for the U.S. Patent and Trademark Office (USPTO) to put the agency on a path to reduce ... total pendency for patent applications to 20 months[.]” Written Statement on the Commerce Department's FY 2011 Budget by Commerce Secretary Gary Locke Senate Appropriations Subcommittee on Commerce, Justice, Science, and Related Agencies, March 4, 2010, page 3.

## **B. The True Metrics of the Kappos Administration**

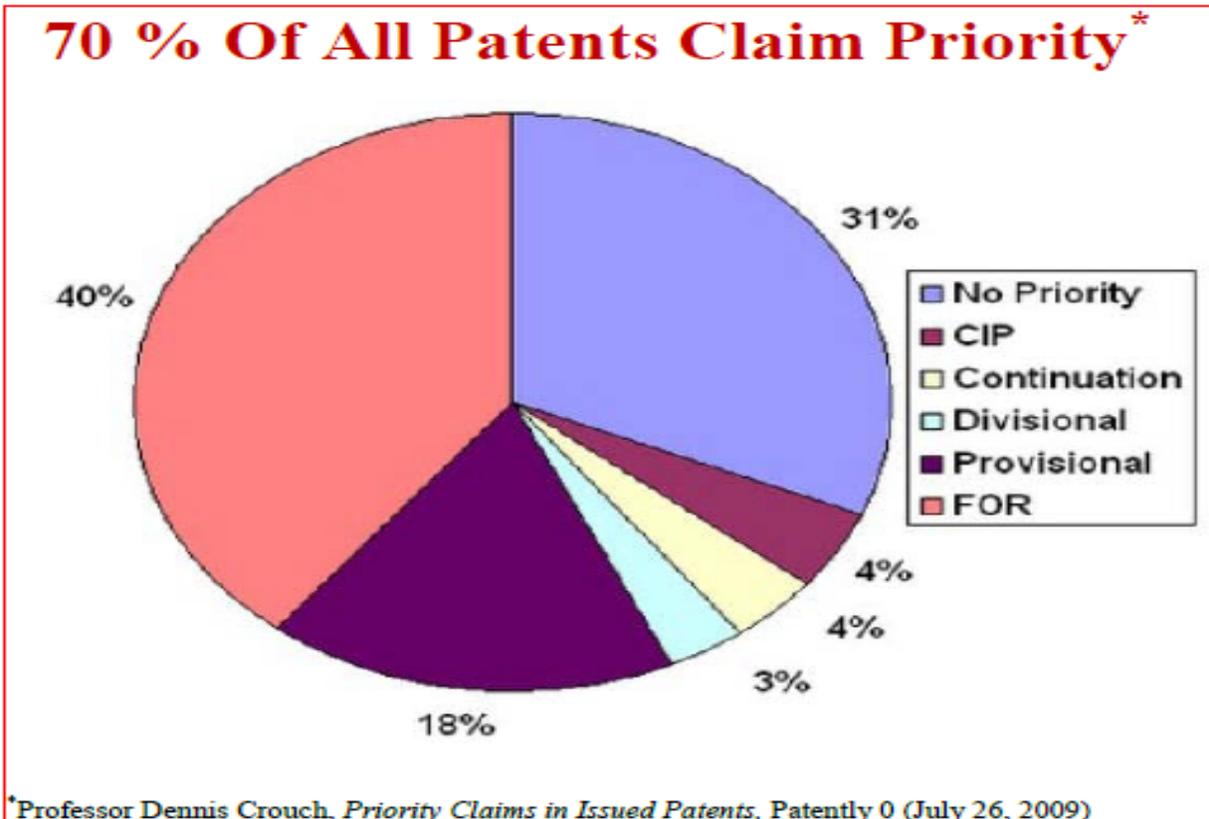
Over the course of more than a full generation through the administrations of Gerald Mossinghoff, Donald J. Quigg, Harry Manbeck, Bruce Lehman, Q. Todd Dickinson, Judge Rogan and Jon Dudas, pendency has been measured from an artificial date during the overall pendency of the application, either from the last in a chain of filings or, under Rogan and Dudas, since the latest RCE. Under Secretary David J. Kappos has dismissed this pendency counting as the “old metrics”. United States Patent and Trademark Office Patent Public Advisory Committee Meeting, Alexandria, Virginia (October 15, 2009), p. 91

[http://www.uspto.gov/web/offices/com/advisory/acrobat/ppac\\_transcript\\_101509.pdf](http://www.uspto.gov/web/offices/com/advisory/acrobat/ppac_transcript_101509.pdf).

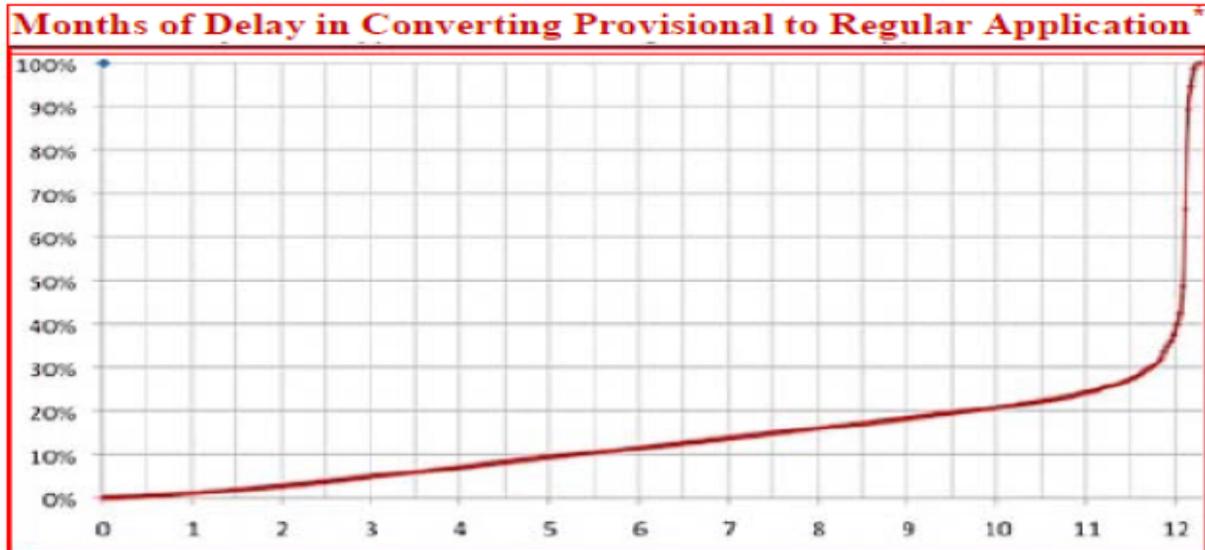
Instead, the current Administration has turned to the realities of the “new metrics”. As explained by the Under Secretary, “an average overall pendency of 34.6 months measured by I believe by what we're now referring to as the old metrics [exists today], and in keeping with transparency we're going to be putting out new metrics which are going to try to fully report pendency from every conceivable viewpoint including total pendency from original filing of a priority case whether that original filing is in the U.S. or overseas, all the way through to final disposal of the case whether it be complete and total abandonment, in other words, no continuation, no CIP, no divisional, no other case filed, or whether it be issuance of a patent. So we'll start trying to track and transparently report what many in the applicant community think of and refer to as the total application pendency and we're working on getting the machinery in place to do that.” *Id.* at pp. 91-92.

**C. A Fantastic Goal beyond the Realm of Reality**

It is immediately clear that whether the average pendency goal is 12 or 20 months, this is a fantastic goal that is impossible to reach, particularly given the fact that 70 % of all applicants today have at least one priority application:



Furthermore, a major reason for a priority application is to defer the application processing as much as possible. This is manifested in the case of provisional priority application filings where applicants defer their “regular” application up to almost the full 12 months permitted under the law:



\* Cumulative Frequency Chart Showing Delay in Filing Regular (Non-Provisional) Utility Patent Applications after Filing Provisional Applications. The chart is taken from an article by Professor Dennis Crouch, *Provisional Patent Applications: Waiting to File Non-Provisionals* (February 22, 2009) ("[Prof. Crouch] compiled a set of 65,000 patents that issued sometime between Jan 2007 and Feb 2009 (inclusive). All the patents in the group share the common property of claiming priority only to one or more provisional applications. [He] additionally excluded patents that made other priority claims such as continuations, divisionals, and continuations-in-part.")

Thus, even if the goal of the FY2011 President's Budget to cut the time until first action within ten months is met, the swelling of pendency through priority applications *alone* pushes the net average pendency beyond twenty months from the first filing date – all without counting the actual processing time of a first action, response to the first action and so forth, coupled with the allowance formalities.

To be sure, the goal of a 20 month average pendency *should be met* for the applicants who want to achieve this goal. Immediate examination should be available to everyone. Whether they achieve a final disposition of their case within 20 months will depend upon their prompt cooperation with response to Office Actions and payment of Issue Fee.

## VIII. RCE REFORM, A NECESSARY INTEGER FOR REFORM

### A. Failure of “Count” Reform to Significantly Deter RCE’s

The Kappos Administration recognized right from the start that Requests for Continued Examination – RCE’s – represent a major obstacle to reduction in overall pendency. The Administration to its great credit attempted to remove the incentives for *Examiners* to create prosecution scenarios that would force RCE filings. To the great credit of the Administration, “count” system reform was instituted in 2009 that was designed to eliminate *Examiner* incentives to compel RCE’s.

Now, the Kappos Administration has projected the clear failure of this measure to eliminate *applicant*-created RCE scenarios. In projections it has published on its website, there is only a two (2) percent reduction in RCE filings contemplated for the coming two fiscal years, even given the “count” reform:

<b>Patent Pendency Model</b>							
	FY	2009	2010	2011	2012	2013	2014
In FY09, 30 % of filings were RCE	% RCE Reduction	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%
Out of all filings, what percentage are RCE’s	RCE as a % of Total Filings	30 %	28.0%	26.0%	24.0%	23.0%	22.0%
* U.S. Patent and Trademark Office Patent Pendency Model, <a href="http://www.uspto.gov/patents/stats/patent_pend_model.jsp">http://www.uspto.gov/patents/stats/patent_pend_model.jsp</a> (last visited March 25, 2010).							

## **B. Regulatory Reform of the Count System**

The Kappos Administration can do far more to reduce average pendency by curtailing RCE abuse than it can with a \$ 2.3 billion annual budget and hiring many new Examiners.

The conditions under which RCE's may be filed are within the regulatory authority of the PTO. It is incumbent upon the Kappos Administration to make such reforms, now that it has recognized the failure of count system reform. Even in the area of statutory continuing applications under 35 USC § 120, abuse can be curtailed to some extent by tightening up procedures for filing. For example, there are too many situations where at the last minute a decision is made to file an RCE because it is simply more convenient for the vacation schedule of the applicant or other trivial reason. If RCE's are curtailed, a continuation under 35 USC § 120 can be filed with a deferred declaration: Here, requirements proscribing delays in filing formal papers would help curtail such abuse.

## **IX. THE "MANAGER'S AMENDMENT" TO S.515**

The Manager's Amendment will do essentially nothing to implement the goals of patent worksharing outlined in this paper. At first blush, it may seem that the first-inventor-to-file change in the patent reform proposal does move toward patent harmonization. Yet, it most certainly does not come anywhere near harmonization with the global system. First, a grace period is retained which disqualifies certain prior art under the global system where the inventor's own (non-patent application) publication precedes the prior art. Second, a patent-defeating date is given to an earlier-filed but later-published patent application as of its priority date *for obviousness prior art* which is not at all the case under the global system. Because there will be a tremendous transition cost for applicants to adjust to the major changes brought about by the overall patent reform bill, there will be a negative impact on backlog in terms of the time needed for everyone to adjust to the new system.