



Innovation Alliance Comments to OMB

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Unintended Consequences

- This “procedural” rule change will have substantial negative substantive impact on inventors ability to protect their intellectual property through patents
- There were hundreds of comments submitted – most were negative
 - Patent Public Advisory Committee
 - National Institutes of Health
 - Intellectual Property Owners (IPO)
 - ABA, IP Section
 - District of Columbia Bar, PTC Section
 - AIPLA

Quick Overview – Proposed Rules

- The changes will not reduce the PTO backlog
- These “fixes” to the patent examination process will disproportionately and substantively harm our nation’s most innovative companies
- Potential costs and benefits are not properly balanced as required by Executive Order 12866
- Other options for addressing the backlog problems with significantly less potential to negatively impact innovative businesses have not been adequately considered
- Inconsistent with statutory authority and/or contrary to current law governing patents
- According to Small Business Administration, Chief Counsel for the Office of Advocacy, a complete Initial Regulatory Flexibility Analysis pursuant to 5 U.S.C. § 603 prior to publication of the final rule was not completed

Agenda

- Patent Prosecution Backgrounder
- Shortcomings in Proposed Rules Support Document
- Failure to Adhere to Executive Order 12866



Patent Prosecution Backgrounder

Patent Requirements

- 35 USC 101
 - New
 - Useful
 - Non-obvious
- 35 USC 112
 - Enablement
 - Written Description
 - Best Mode

Prosecution Practices

- Prosecution is a negotiation with the examiner
 - RCE enables this negotiation
- If supported by the disclosure, the inventor can add new or modify existing claims
 - Continuation practice
- Restricted claims can be pursued serially in order or economic priority
 - Divisional practice
- PTO examiner count system
 - 1 count for the first office action
 - 1 count for “disposal” (i.e., allowance, abandonment, examiner’s answer to appeal, or RCE filing)

RCE Practice

- Typical case proceeds as
 - First Office Action
 - First Response
 - Final Office Action
 - Response NOT Considered
 - File RCE
 - Preliminary Amendment
 - First Office Action
 - Etc.
- Often 1 substantive response before filing an RCE
- RCE filing bars filing a continuation under the proposed rules

Continuation Practice

- PTO allowed some claims, but rejected others
 - Inventors often take the allowed claims and file a continuation to pursue others
- Increased economic significance of an invention
 - Companies and inventors review allowed applications in light of economic value of the invention, scope of prior art, scope of claims and current competitive situations to determine whether more claims are warranted
 - Inventors vote with their time and money
- Obtaining full coverage for complex inventions
 - Often better to file related inventions in one application
 - Cost considerations for filing all claims at start
 - Continuations allow efficient allocation of resources

Continuation Practice

- It should be made clear ... that there is nothing improper, illegal or inequitable in filing a patent application for the purpose of obtaining a right to exclude a known competitor's product from the market; nor is it in any manner improper to amend or insert claims intended to cover a competitor's product the applicant's attorney has learned about during the prosecution of a patent application. Any such amendment or insertion must comply with all statutes and regulations, of course, but, if it does, its genesis in the marketplace is simply irrelevant (emphasis added). *Kingsdown Medical Consultants Ltd v. Hollister Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1988)
- Policy not modified by Congress in 1995 or 1999 amendments to the patent laws
 - In 1995 Congress changed the term of patent rights
 - In 1999 Congress added the RCE application

Divisional Practice

- Presently applicants can determine the economic value of claims restricted in existing applications and decide which to pursue first
 - Conserve PTO and applicant resources
 - PTO states that only 30% of restricted claim grouping are ever pursued
 - Proposed rule would force all filings “at once”, i.e., during the pendency of the first filing



Shortcoming in the Proposed Rules Support Document

The Numbers Do Not Add Up

- PTO claims it could have reduced the backlog by 35,000 cases if no continuations were filed
 - Misleading since the rule allows continuations
 - Continuations made up 117,000 of the 360,000 applications filed according to the rules package
 - Less than 22,000 of the 117,000 would be affected by rule
 - Half of those are RCEs
 - Second and later continuations represent perhaps 10-15,000 of the expected 450,000 new filings in fiscal 2007
- Backlog will probably get worse, no analysis of
 - surge in new filing strategies by inventors
 - surge in divisional filings due to new rule
 - petition filings and increased appeals

Bona Fide Attempt to Advance Prosecution

- PTO rightly states that applicants have a duty to make a bona fide attempt to advance prosecution
 - The proposed rules are arbitrary and do not attempt to address this concern
 - The proposed rules actually prevent Continuation Applications that are a bona fide attempt to advance prosecution
 - The standard for allowing a second or later continuation is not tied to this policy
- Existing rules allow the office to deal with “abusive” filings, which are an issue
 - Prosecution history laches
 - Office of Enrollment and Discipline

Exemplary Problems

- Poor “direct filed” translations of foreign cases
 - More narrow targeted reforms or proposals could be used to address this issue,
 - Section 112 enablement requirement
 - Review of amendments for “new matter”
- Placeholder applications maintained for the purpose of adding claims later may not advance prosecution
 - PTO has tools to address these type of filings
- Resolving these legitimate issues does not require substantively changing the patent prosecution process for all inventors
 - These changes will harm the innovation economy

Undefined Standard

- Permission to file a second or later continuation requires “a showing ... that the amendment, argument, or evidence could not have been submitted during the prosecution of the prior filed application”
- A new amendment “will not by itself be a sufficient reason to warrant grant of a petition”
- The standard allows arbitrary action by the Director and is too high as explained by the PTO as the Town Hall meetings
- In the various public meetings I attended on the proposed rules, the PTO did not define any scenario under which a petition would be granted
- The standard should be tied to applicants making a bona fide attempt to advance prosecution



Failure to Adhere to Executive Order 12866

Overview

- Proposed rules will impose hundreds of millions of dollars of cost on patent applicants
- Unintended consequences and negative substantive impact will likely destroy billions of dollars in intellectual property rights and business value
- PTO has admitted the rules are “significant” under Executive Order 12866, but has not complied with the dictates of that order

Cost-Benefit Analysis

- Cost to comply will be greater than half a billion dollars (>\$500,000,000)
 - Very conservative estimate
 - 2 hours added to applications for claim flexibility
 - 1 hour on average to select claims for Examination Rule
 - Does not take into account Examination Support Documents
- Affect on backlog will be negligible or completely non-existent
- PTO has adequate remedies to deal with any existing abusive continuation practices

Retroactive Impact is Severe

- Proposed rule will apply to any new continuation
 - If a case filed under the existing regulations already has one (1) Continuation Application, then no new continuation or RCE would be allowed without the petition process
 - Applicants have been operating under existing rules in filing applications and building portfolios
 - Rules should at least have a transition period, such as any case filed before the date of the rules would be considered the “original” application for purposes of any limitations
 - Retroactivity will require large expense this year in review and filing of new applications before rules go into effect
 - New filings to avoid retroactive impact will negatively affect the PTO backlog

Alternatives

- Internal PTO changes have not been adequately factored into the equation
 - 1000+ new hires per year for several past years and into the near future
 - Other initiatives, include work from home, training academy, retention bonuses, peer-to-peer review
- Economic incentives have been overlooked
 - PTO fees are based on the cost to provide the service
 - Users supported 20-30% fee increases a few years back to enable the PTO to staff up and implement new initiatives
 - Congress has ended fee diversion, at least for now
 - If the costs is higher, fees should be raised appropriately
 - Many comments proposed a graduated scale for later continuations to discourage abuse and focus them on truly economically significant patents

Contradictions with Internal Regulations

- PTO count system (2 per “disposal”) contributes significantly to RCE and divisional filings
- Proactive examiner management and enforcement of existing rules and standards would reduce RCEs, for example,
 - Examiner’s inappropriate final office actions and refusal to respond to same
- Application of Unity of Invention standard would limit divisional filings
 - Combine prosecution of method and apparatus claims
- No attempt has been made to address these underlying causes of the backlog

Contradictions with Statutes

- 35 U.S.C. 120, which codified longstanding practice, states in part:

An application for patent for an invention disclosed in the manner provided by ... section 112 of this title in an application previously filed in the United States ... which is filed by an inventor ... shall have the same effect, as to such invention, as though filed on the date of the prior application.
- Congress has not limited inventors ability to claim priority under Section 120 through two recent amendments to the patent laws
 - In 1995, Congress changed patent term from 17 years from patent issuance to 20 years from the first priority date
 - In the 1999 American Inventors Protection Act Congress added RCE practice
 - There are no such proposals in the current proposed legislation

Contradictions with Caselaw

- The Federal Circuit caselaw has approved
 - Applicants ability to file claims in continuations that are supported by the original application
 - Prosecution history laches to penalize applicants that do not attempt to advance prosecution
- Federal Circuit continues to issues cases that require longer more detailed specification and more, not less, claims
 - Dedication of unclaimed matter to the public, *Johnson*
 - Limiting doctrine of equivalents, *Festo*
 - Trend to more narrow claim construction
 - Tougher application of the written description and enablement requirements

Unintended Consequences

- The rules make obtaining adequate and complete claim coverage very difficult, especially for complex inventions
- The rules will harm small innovative companies that are more dependent on strong patents to
 - negotiate agreements with large, established companies
 - raise capital to fund R&D and expansion
- Continuations represent most economically valuable patents as determined by inventors themselves
 - Inventors continue to spend time and money for applications that have economic value
 - PTO asserts that continued examination “suffers from diminished returns” even though inventors clearly disagree with the spending of their limited resources (time and money)

Disparate Effect of Rules

- The rules are supported by large established companies with mostly large patent portfolios
 - For example, Intel, Micron, Apple, Microsoft
- The rules will benefit these companies at the expense of new growth companies
 - Existing portfolios benefited from current continuation practice
 - Rules will reduce their exposure to patents since companies will not be able to obtain complete claim coverage for inventions
 - Sheer numbers of patents are more important to many of these companies
 - The harm as a percentage of their portfolio will be less
- Workarounds of the rules will be prohibitively expensive for small business and small inventors
 - Filing all possible claims in initial case
 - Filing many applications instead of one complete disclosure
 - Pursuing all divisional applications during pendency of the original application

Small Business Impact

- Regulatory Flexibility Act generally requires an agency to publish an Initial Regulatory Flexibility Analysis whenever the Administrative Procedure Act requires notice and comment rulemaking. 5 U.S.C. § 603.
- As part of an IRFA, the agency must include a description and analysis of the numbers of small entities affected by the rule and a description of alternative approaches to address the impact on small businesses.
- In its written comments, the Chief Counsel for Advocacy of the Small Business Administration has commented that “the rule will affect a substantial number of small entities” and has urged the PTO to complete an IRFA.

Examination Rules Compound the Problems

- Limits the number of claims the PTO will substantively search
 - Makes final office actions more likely
 - Therefore makes RCE and continuations more likely
- When added to the continuation limitations above, it makes all of those issues addressed worse