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WHY THE USPTO SHOULD ADOPT A DEFERRED PATENT EXAMINATION SYSTEM

David P. Irimies¹

ABSTRACT

To date, the United States Patent & Trademark Office (USPTO) has addressed its two main issues - backlog and stretching pendency times - primarily by throwing resources at them. This approach has failed. This paper explores how the adoption of a deferred examination system for all non-provisional U.S. patent applications - similar to current Patent Cooperation Treaty practice - would help the USPTO alleviate these issues. To that end, this paper proposes a deferral system, demonstrates how deferred examination could be done at the USPTO as part of its normal practice of examining patent applications, and discusses policy considerations that both support and are antagonistic to such a proposal. First, the proposed deferral system would help the USPTO perform examinations correctly the first time by enabling more complete prior art searches and office actions; it is worth noting that this could be done without hiring more examiners. Secondly, this system would reduce transaction costs, facilitate innovation and trade, and harmonize our patent laws with the rest of the world. More generally, and perhaps more importantly, a deferred system would substantially conserve USPTO resources, increase the quality of issued patents, and increase the public's confidence in our patent system. Potential concerns such as lack of notice, submarining of patents, shifting the cost burden to patent challengers, and U.S. labor issues are either directly addressed with the proposed deferred examination system or are more directly related to other issues, such as damages and outdated litigation laws.

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I. INTRODUCTION

On February 12, 2009, the United States Patent and Trademark Office (USPTO) hosted a roundtable discussion (“Roundtable”) on the topic of deferred examination.² This Roundtable discussed the advantages and disadvantages of the USPTO adopting deferred examination; its national impact on applicants, the public, competitors, and on the USPTO’s pendency and workload; and its international impact. This paper examines whether the USPTO should conduct deferred examination on all non-provisional U.S. patent applications, similar to current Patent Cooperation Treaty (PCT) practice. This paper provides a proposed deferral system, demonstrates how deferred examination could be done at the USPTO as part of its normal practice of examining patent applications, and discusses policy considerations associated with such an examination system. This paper does not cover tangentially related ideas that former USPTO Director Jon Dudas put forth, which would allow applicants up to five years to claim priority on a provisional application and allow applicants the ability to obtain an extension of 14 months to respond to a notice to file missing parts before the USPTO can examine an application.³

A. *Current State of USPTO and PCT practices*

The USPTO processes both patent and trademark applications and has largely been a fee-funded agency for the past twenty years.⁴ The USPTO currently employs more than 9,000 people,

2. See USPTO to Host Roundtable on Deferred Examination, <http://www.uspto.gov/main/homepagenews/2009feb09.htm> (last visited August 12, 2009).

3. *Questions and Answers for the Record*, Page 4. United States Patent and Trademark Office Oversight Hearing Before the Committee on the Judiciary Subcommittee on Courts, the Internet, and Intellectual Property (February 27, 2008), available at <http://www.patentlyo.com/patent/law/dudas.ltr.pdf>.

4. U.S. CHAMBER OF COMMERCE, RECOMMENDATIONS FOR CONSIDERATION BY THE INCOMING ADMINISTRATION REGARDING THE U.S. PATENT AND TRADEMARK OFFICE, 2 (December 19, 2008) (hereinafter *U.S. Chamber of Commerce Recommendations*), available at http://www.ieeeusa.org/volunteers/committees/ipc/documents/USPTO_PatentProject_10.24.08.pdf.

two-thirds of whom are examiners; the majority of those examiners have less than three years of examining experience.⁵ Some key USPTO operating statistics, when compared to similar statistics from ten years ago, demonstrate the ever-increasing problems of application backlog and stretching pendency times, despite a swell in expenditures. These statistics show a budget that has drastically increased from \$560 million to a near four-fold increase of over \$2 billion.⁶ In addition, the examiner corps has more than doubled, having increased from 2,600 examiners to 6,000 examiners, and the number of new applications has risen from 240,000 new applications filed ten years ago to 464,000 applications filed today. During this time, the application backlog has grown from 480,000 to over 1,200,000, and the average pendency time amongst all art units has grown from 24 to 32 months.⁷ In the next few years, these numbers are likely to rise: this new application rate could swell to over 600,000 per year⁸, largely due to an influx of applicants from China and India.⁹ This, in general, is due to foreign corporations understanding the commercial need to have a corresponding American patent to their home country patent.¹⁰ Likewise, the backlog may rise, as many of the examiners hired over the recent years have already resigned, leaving examiners with no experience to replace them.¹¹

In 2002, Mr. Dudas proposed an 18-month deferred examination system as a way to deal with the backlog. In response, some of the influential trade associations of the patent bar pushed back strongly, and demanded that the USPTO receive full funding and

5. *Id.* at 3, 8.

6. USPTO, FISCAL YEAR 2009 PRESIDENT'S BUDGET, *available at* <http://www.uspto.gov/web/offices/ac/comp/budg/fy09pbr.pdf>.

7. *U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 3, 8; Katznelson, Ron D., *Examination-On-Request - A Deferred Examination Proposal for the U.S. Patent Office* 3, (May 29, 2009) (hereinafter *Katznelson Recommendations*) *available at* <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/deferredcomments/rkatznelson.pdf>.

8. Wegner, Harold, *Deferred Examination: A Realistic Solution to Deal with a 1.2 Million Patent Application Backlog vs. Hiring Thousands of Examiners*, October 2, 2008 (hereinafter *Wegner Recommendations*), at 33.

9. *Id.* at 7, 10.

10. *Id.* at 16.

11. *Id.* at 6.

use those funds to hire as many examiners as necessary to fill the backlog.¹² Consistent with these complaints, the USPTO has addressed its two main issues - backlog and stretching pendency times - primarily by throwing resources at them.¹³ These trade associations were not receptive to alternative, more creative solutions, like the deferred PCT-like practice proposed herein.¹⁴ The Intellectual Property Owners Association (IPO), one of the key trade associations in IP matters, resisted alternative solutions because the IPO felt such alternatives would harm the interests of patent owners and would fail to address the backlog issue.¹⁵ In addition, the IPO felt that throwing resources at the backlog and stretching pendency times would be the most effective course of action.¹⁶ As the statistics above demonstrate, this approach has failed.

An overview of the salient parts of PCT practice is in order. Nations that are signatories to the PCT “constitute a Union for cooperation in the filing, searching, and examination of applications for the protection of inventions.”¹⁷ First, an inventor (applicant) within a PCT-member country files their local patent application to establish the application’s priority date.¹⁸ Then, the

12. *Id.* at 3-5.

13. And in a secondary fashion by useful, yet underutilized, pilot programs such as the First Action Interview pilot and Accelerated Examination. In the First Action Interview pilot, a preliminary office action is issued, then a face-to-face interview between the examiner and prosecution attorney takes place to work out the prosecution issues, and then an official first office action is issued. In Accelerated Examination, the entire prosecution lifecycle takes place over the course of twelve months, but the quid pro quo is that applicants submit a detailed search report, amongst other requirements. Andrew Hirshfeld, Acting Deputy Commissioner for Patent Examination Policy, presentation at the University of Akron class: IP Policy and Politics, (Mar. 17, 2009).

14. *See e.g.* Letter from Marc S. Adler, President, Intellectual Property Owners Assoc., to Hon. Jon W. Dudas, Under Secretary of Commerce for Intellectual Property, (May 3, 2006), at 2, 5 (*available at* http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_claims/ipo.pdf).

15. *Id.*

16. *Id.*

17. Patent Cooperation Treaty, art. 1., *available at* http://www.wipo.int/pct/en/texts/articles/a1.htm#_1.

18. *See* Patent Cooperation Treaty, Chapter I (International Application and International Search) and Chapter II (International Preliminary Examination).

applicant files a single PCT application, up to twelve months from the priority date, that, by default, designates all PCT member countries.¹⁹ Sixteen months from the priority date, an international search report (ISR) of prior art and a written opinion of its impact are provided to the applicant from the patent office performing that search (international search authority/ISA).²⁰ Using the ISR, the applicant can then decide whether the claims are supported by the written description and prior art limitations. Eighteen months from the priority date, the PCT application is published.²¹ Usually at twenty-two months from the priority date, the applicant can choose to file a demand to obtain a preliminary examination of patentability, or the applicant can choose to wait until thirty months from the priority date to enter the national stage, at which point he must elect which PCT member countries he wishes to seek patentability in, begin the substantive examination process and pay the requisite fees.²²

Compare this thirty-month window of beginning substantive examination under the PCT/deferred examination model to the USPTO's current model: currently, it takes anywhere from twenty to forty-five months, depending on the art unit, for the USPTO to begin substantive examination, via a first office action, on a non-provisional application.²³ Therefore, a USPTO implemented deferred examination system would not be incompatible with the PCT system, since PCT applicants can wait up to thirty months before entering the national stage for deferred examination.

B. USPTO Patent Quality and the Need for a Deferral System

The quality of examinations is directly proportional to the quality of the issued patent, and thus, the confidence of a nation's patent system to its citizens and businesses.²⁴ Although the

19. *Id.*

20. *Id.*

21. *Id.*

22. *See id.*

23. *How Long Do I Wait for a First Office Action*, PATENTLY-O, Nov. 15, 2008, <http://www.patentlyo.com/patent/2008/11/how-long-do-i-w.html>.

24. *U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 5.

USPTO has asserted that the quality of its issued patents is improving,²⁵ some stakeholders would dispute that assertion.²⁶ For example, the IPO coordinated a survey amongst its corporate members about U.S. patent quality: over half of those surveyed indicated that such quality was lacking, and over three-quarters of those surveyed believe that the state of such quality would remain stagnant, or even worsen, in the coming years.²⁷ Meanwhile, the U.S. Chamber of Commerce advocates that in order to achieve true U.S. patent quality, examination should be performed “right the first time” via more comprehensive prior art searches and more complete office actions.²⁸

Under the current U.S. patent examination system, assessing the true scope of prior art, which requires examiners to perform comprehensive prior art searches, is difficult.²⁹ This is especially so in light of the anticipation standards of 35 U.S.C. §102(a) and (b),³⁰ and particularly in instances where the relevant prior art must

25. Some USPTO quality metrics include an allowance error rate from 5.3% in Fiscal Year (FY) 2004 to 3.7% in FY'08; an in-compliance rate (percent of office actions without error) from 82% in FY'04 to 92% in FY'08; and a Board of Patent Appeals and Interferences affirmance-on-patentability rate from 62% in FY'06 to 77% in FY'09. *See* Hirshfeld, *supra* note 13.

26. During the Roundtable, participant Gordon Arnold of the American Bar Association argued that the examiner corps' failure – due to English being a second language to some examiners and poor quality office actions amongst the entire examiner corps - has led to a lack of patent quality. *See* Roundtable Webcast from Townhall Meeting on Deferred Examination, *available at* <https://uspto.connectsolutions.com/p91717658> (last visited April 2, 2009) (hereinafter *Roundtable webcast*).

27. *Patent Reform Act of 2009: Hearing Before the S. Comm. on the Judiciary*, 111th Cong., 1st Sess. 7(2009)(testimony of David J. Kappos, Under Secretary of Commerce for Intellectual Property and Director of the USPTO and former VP and Assistant General Counsel IP Law and Strategy, IBM Corporation).

28. *U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 3.

29. *See Wegner Recommendations*, *supra* note 8, at 21, 49.

30. The examiner must consider whether the subject matter of the application was known or used by others in the U.S., or patented or publicized by others anywhere before the date of the invention. 35 U.S.C. §102(a) (2006). Additionally, the examiner must consider whether the subject matter was patented or publicized by anyone at any place, including the inventor, or was in public use or on sale by anyone more than one year before the effective filing date of the application. 35 U.S.C. §102(b).

be translated. In China, for example, a complete understanding of the foreign prior art in China would require examiners to translate the 700,000 Chinese applications published each year that do not have a foreign counterpart and, therefore, no related English language application.³¹

Even if a newly discovered piece of prior art is discovered during prosecution, examiners will often refuse to admit amendments or allow new evidence in an effort to meet their production quotas (known as “beans”).³² To account for this newly discovered prior art, applications must often file a Request for Continued Examination (RCE).³³ This often results in a churning of applications and only increases the USPTO application backlog. To reduce this backlog, the USPTO must consider more foreign, material prior art earlier in the prosecution process and should eliminate continuing applications practice.³⁴ The U.S. is the only country to have RCEs as part of its normal prosecution practice.³⁵ The elimination of RCEs and other continuing applications will compel prompt presentation of evidence and claims.³⁶

Three years ago, the USPTO received a flood of over 400,000 national phase patent applications via PCT.³⁷ Each of these applications contained a search report of relevant prior art that the USPTO examiners can, and often do, wholly ignore.³⁸ Many of these applications, therefore, forced the USPTO to perform duplicative prior art searches as well as repetitive anticipation and obviousness analyses. This wasted USPTO resources and increased pendency times. To make matters worse, the current Patent Reform Act of 2009 includes a Search and Examination Functions provision that would preclude the USPTO from having any entity other than a U.S. government (USPTO) employee examine patent applications and conduct prior art searches.³⁹ This,

31. See *Wegner Recommendations*, *supra* note 8, at 21, 49.

32. STEVEN W. LUNDBERG & STEPHEN C. DURANT, *ELECTRONICS AND SOFTWARE PATENTS: LAW AND PRACTICE* §10.03 (2000).

33. *Wegner Recommendations*, *supra* note 8, at 52, 58-60.

34. *Id.* at 56, 61.

35. *Id.* at 62.

36. *Id.* at 56, 61.

37. *U.S. Chamber of Commerce Recommendations*, *supra* note 4 at 10.

38. *Id.*

39. Patent Reform Act of 2009, S.515(k)(1-2), “SEARCH AND

too, will only serve to waste USPTO resources and increase the backlog.

To date, the USPTO has attempted to solve these problems by throwing resources at them. The USPTO projects that, under its current policies, the backlog will start to decrease only by 2013, at best.⁴⁰ On the contrary, Ron Katznelson, one of the Roundtable's core participants, demonstrated that the USPTO's patent application disposal capability consistently fails to withstand the current filing rates of applications.⁴¹ His metric for a stable versus unstable examination system is a queue-loading ratio (QLR), which measures the ratio of the number of applications filed over the number of disposed applications.⁴² Ideally, the QLR would be 1, but as Mr. Katznelson shows, the USPTO's current QLR is approximately 1.20, meaning an examination shortfall of 20%, and an overall unstable examination system.⁴³

Should it choose to adopt a deferral system, the USPTO, in one conservative estimate, may well free itself of about 1 million examiner-hours.⁴⁴ In another estimate, under a three year deferral system, there would be a 15-25% total savings in examination workload due to a dropout of unexamined applications and claims and a withdrawal of many original claims.⁴⁵ In yet another estimate, implementing deferred examination will eliminate, via no follow-up examination requests, over 40% of projected applications that otherwise would have to be examined each year.⁴⁶

EXAMINATION FUNCTIONS," proposed amendment to 35 U.S.C. 131, available at <http://www.govtrack.us/congress/billtext.xpd?bill=s111-515>; see also discussion *infra* Section VI(D).

40. See *Katznelson Recommendations*, *supra* note 7, at 3, 19 (Comparing "UPR Applications Filed" with "UPR Disposals").

41. *Id.* at 4.

42. *Id.*

43. *Id.*

44. *Id.* An additional problem with the status quo system is that the USPTO has to waste its resources on all applications that come in because prior art searches are done in parallel with examination. On the other side, the applicant is effectively bound to proceed with examination because he has expended so many resources to get the examination into the queue.

45. *Id.* at 3. Approximately half of this total savings would result from unexamined applications.

46. *Wegner Recommendations*, *supra* note 8, at 34.

II. THE PROPOSED DEFERRAL SYSTEM

A. *General Sketch and Search Reports*

One component of this proposed deferral system would be a proposal for work-sharing among the USPTO, European Patent Office (EPO), and the Japanese Patent Office (JPO). These three patent offices handle the majority of worldwide patent applications.⁴⁷ Other offices could be included as partners in this work-sharing group, including the Chinese Patent Office. Each office would rely on other partner offices' work in search and examination—a full-faith and credit provision—to help reduce backlog among all offices. In other words, a work-sharing system would exist whereby one examiner would do the worldwide prior art search and substantive examination work. The home office would have to take into account foreign search and examination reports from parallel proceedings. Although the home office would not be able to overturn search and substantive examination results, the home office would still hold the final say as to whether the patent application should be allowed or denied.⁴⁸ Such a system ought to work for the USPTO, given that the USPTO has the highest percentage of foreign-based applicants of any world patent office.⁴⁹ Factoring in the amount of U.S. applicants that file abroad, it could very well be that over half of all world cases could use this scheme.⁵⁰ Even many groups that oppose the USPTO adopting deferred examination agree that global patent office work sharing would lead to more substantive patent law harmonization and would produce more results from one office that could be leveraged to more effectively exam applications.⁵¹

47. TRILATERAL CO-OPERATION, TRILATERAL STATISTICAL REPORT 2007, 37 (2007), available at <http://www.trilateral.net/statistics/tsr/2007/activity.pdf>.

48. For an alternative view, see FEDERAL TRADE COMMITTEES, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY 8-10 (October 2003), available at <http://www2.ftc.gov/opa/2003/10/cpreport.shtm>.

49. *Wegner Recommendations*, *supra* note 8, at 74-75.

50. *Id.* at 75.

51. See, e.g. Brian P. Barret, *Deferred Examination – a Sensible Solution to*

Sometimes, statutory prior art is not available on public websites, and many documents originally exist only in non-English languages. In these instances, it takes a considerable amount of time for an English translation to become available.⁵² Under this system, the EPO, Chinese, and Japanese examiners could assess the true state of non-English prior art, similar to multiple PCT ISRs.⁵³ Then, the USPTO examiners would be *required* to use these search reports and respond to their relevance, and the applicants would receive these reports in a timely fashion (they would not be required to respond to their relevance). These search reports would be sent to the applicant before the deferral deadline (duration) to start examination and would be published either at eighteen months from filing of the application or between eighteen months and the end of the deferral period.⁵⁴ This would enable applicants to get a preview and understanding of the technical hurdles that lie ahead in achieving issuance. In sum, the deferral period would give USPTO examiners the benefit of additional, relevant information that comes with the passage of time, which would result in a better, more substantive examination of patent applications.⁵⁵

This proposed deferral system is not dependent on hiring more examiners, and is, therefore, not dependent on whether Congress stops fee diversion.⁵⁶ Such a stop would likely result in an even

USPTO Troubles?(September 16, 2009) (hereinafter *Eli Lilly Recommendations*), available at <http://www.ipo.org/AM/Template.cfm?Section=Search§ion=Papers18&template=/CM/ContentDisplay.cfm&ContentFileID=61192>.

52. *Id.*

53. *Id.* at 50.

54. Steven Bennett & David Kappos, Inside Views: Deferred Examination: A Solution Whose Time Has Come, *Intellectual Property Watch*, 4 (Mar. 12, 2009) (hereinafter *IBM Recommendations*) available at <http://www.ip-watch.org/weblog/2009/03/12/inside-views-deferred-examination-a-solution-whose-time-has-come/>.

55. *See id.*

56. Fee diversion involves Congress reallocating USPTO user fees towards other federal government programs. *See Intellectual Property Owners Association, Adequate Funding for the USPTO and Ending Fee Diversion*, <http://www.ipo.org/AM/Template.cfm?Section=Home&Template=/CM/ContentDisplay.cfm&ContentID=3360> (last visited March 25, 2009); and Intellectual Property Owners Association, *Ending Diversion and Ensuring that*

larger examiner corps.⁵⁷ This proposed deferral system might not solve all the backlog and pendency problems, but it would at least be a start. The USPTO approach will have to be multi-pronged, with an emphasis on increasing the capability of its examiner workforce, retaining competent examiners, continuing to implement its accelerated examination and peer-to-patent programs and the adoption of applicant responsibility measures⁵⁸, implementing a fee-for-service model and a fee structure to encourage best practices, ending continuation practices⁵⁹, and adopting global patent office work sharing as part of a larger deferred examination system.⁶⁰

In particular, IBM's proposal for deferred examination includes several different deferral routes: first, an applicant would pay the search fee, which would result in the publication of both the application and search reports eighteen months from filing; and second, both the search and substantive examination would be deferred until after the application publishes. Such a system would allow applicants to abandon the case based upon the search report or when the applicant no longer wishes to pursue patent protection, such as when the invention no longer has commercial potential.⁶¹

USPTO retains its User Fees, July 10, 2006, <http://www.ipo.org/AM/Template.cfm?Section=Home&CONTENTID=2709&TEMPLATE=/CM/ContentDisplay.cfm>.

57. Harold Wegner, Remarks at the University of Akron IP Symposium, Panel Discussion: Impact of Obama Administration on IP Policy (2009) (hereinafter *Wegner Remarks*).

58. Such applicant responsibility measures could include capping the number of independent claims, allowing examiners to clarify claims prior to searching, requiring responses to written opinions prior to examination, and limiting voluntary amendments. *Eli Lilly Recommendations*, *supra* note 51, at 13.

59. See discussion *supra* Section I(B) and *infra* Section VI(A).

60. See generally *Eli Lilly Recommendations*, *supra* note 51. The current administration will have to prioritize these prongs, but one of them should be adopting deferred examination. See Robert W. Fieseler, *How President Obama Can Restore Our Patent System*, INTELLECTUAL PROPERTY TODAY, Apr. 2009, at 13.

61. *IBM Recommendations*, *supra* note 54, at 8.

B. Duration of Deferral Period

One of the first specific questions that gets raised when implementing this proposed deferral system is how long to allow deferred examination. There is debate among scholars as to how long to make the deferral period. The prevailing view is that deferral should last for up to three years from the effective filing date,⁶² but other scholars suggest that the deferral period should last for up to five years.⁶³ Regardless of which is adopted, the applicant has the power to select the amount of months he chooses to defer.⁶⁴ In other words, this system is beneficial because it would allow applicants to choose when they want to exit deferral.⁶⁵ To do so, an applicant would simply request examination by paying the examination fee before the deferral period runs out.⁶⁶ Such a rule also benefits the USPTO in that the majority of examiners, who have less than three years of examining experience, would gain important experience by working on applications that precede the adoption of this proposed deferral system.

Some scholars propose a three-year deferral system. A three-year period would be compatible with the PCT timeline⁶⁷ and would lead the U.S. towards greater harmonization of substantive and procedural patent law with the world. A three-year deferral period would also be compatible with the JPO's three-year deferral period, which would in turn lead to greater harmonization of substantive and procedural patent law with a major patent office.⁶⁸ Finally, a three-year deferral system would best balance USPTO's workload shortages with its ever-increasing application pendency times.⁶⁹

Harold Wegner, a prominent IP scholar, proposes a five-year

62. See e.g. *id.*; *Katznelson Recommendations*, *supra* note 7.

63. See e.g. *Wegner Recommendations*, *supra* note 8, at 36-38.

64. See *Fieseler*, *supra* note 60, at 12.

65. *IBM Recommendations*, *supra* note 54, at 1. Many applicants within sectors with relatively shorter product cycles, such as software and IT, would likely choose to end deferral sooner.

66. *Id.*

67. See discussion *supra* Section I(A).

68. See discussion *infra* Section VII.

69. *Katznelson Recommendations*, *supra* note 7, at 12.

deferral system to allow for the elimination of over 40% of projected applications that would otherwise have to be examined (via no follow-up examination requests). Once that happens, the USPTO could shorten the deferral period to three years by its own rulemaking mechanisms.⁷⁰ Another reason for having the deferral period initially run for five years is that the biotech, pharmaceutical, and chemical industries would benefit from a five-year deferral system, as they rely on *de facto* deferred examination to flesh out prior art, and these art units file more information disclosure statements than other art units.⁷¹ Yet another reason to have the deferral period run for five years is that new technologies need time before they can reasonably be determined to be commercially viable; if an invention becomes unmarketable, an applicant would not need to risk wasting time and resources on prosecuting an application.⁷² Perhaps Mr. Wegner's most compelling reason for adopting a five-year initial deferral period is that it would allow the USPTO to resolve its 1.2 million current application backlog. As mentioned, the USPTO could then shorten the deferral period by art unit/industry once the current backlog is removed.⁷³

The maximum length of deferral should initially be set to five years because it would provide applicants with a reasonable amount of time to determine the commercial viability of most technologies and may eliminate over 40% of such projected applications that would otherwise have to be examined via no follow-up examination requests. This would allow the USPTO to resolve its 1.2 million application backlog; after the USPTO application backlog subsides, the USPTO could then shorten the maximum deferral period to 3 years by its own rulemaking mechanisms.

C. *Third Party, On-Demand Examination*

The proposed deferral system would also include a rule

70. *Wegner Recommendations*, *supra* note 8, at 36-38.

71. *Id.* at 39-41.

72. *Id.* at 46.

73. *See id.* at 71, 88.

permitting third parties, such as competitors to the applicant, to demand earlier examination of any application by paying a fee.⁷⁴ Those who do not want to wait until the end of the deferral period will be able to request early examination, as by that point the backlog will have been reduced.⁷⁵ Third parties can anonymously request a search and/or examination of a published application after submitting a declaration, per 37 C.F.R. §10.18, paying fees, and, if desired, submit prior art at that time, per 37 C.F.R. §1.99.⁷⁶

Should such a rule be adopted, the U.S. Chamber of Commerce recommends that examiners be given reduced credits in meeting their production quotas (“beans”⁷⁷) for such work that recognizes search results and other work done by first filing offices, in order to remove disincentives for examiners to speed up the prosecution process.⁷⁸ This recommendation matches a current USPTO Joint Labor-Management Task Force proposal to revamp the beans system, which includes decreasing credits for examining RCEs.⁷⁹ Such a proposed deferral system would speed up the prosecution process, something that major patent stakeholders could subscribe to.⁸⁰ Theoretically, this proposed deferral system would also speed

74. *U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 20; *IBM Recommendations*, *supra* note 54, at 1. The U.S. Chamber of Commerce recommends that third parties be allowed to initiate examination at any time in the prosecution process, however the IBM analysis of third parties being allowed to initiate examination eighteen months from filing is more in line with current USPTO practice.

75. *Wegner Recommendations*, *supra* note 8, at 84.

76. *Katznelson Recommendations*, *supra* note 7, at 15.

77. STEVEN W. LUNDBERG & STEPHEN C. DURANT, *ELECTRONICS AND SOFTWARE PATENTS: LAW AND PRACTICE* §10.03 (2000).

78. *See U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 10-11; Feisler, *supra* note 60, at 12. However, see *infra* Section VI(d) for a discussion on the hurdles of doing this. Specifically, such a change in the production system would have to be negotiated between the USPTO and the examiners’ union. Feisler, *supra* note 60, at 12.

79. Press Release, USPTO, USPTO Joint Labor-Management Task Force Proposes Significant Changes to Examiner Count System, (Sep. 30, 2009), available at <http://www.uspto.gov/web/offices/com/speeches/09-19.htm>.

80. The largest patent holders, such as IBM, could favor deferred examination that speeds up the prosecution process. *See Liza Porteus Viana, US Debates Patent Exam Deferrals Patent Reform Bill Expected This Year*, INTELLECTUAL PROPERTY WATCH, Feb. 13, 2009, <http://www.ip-watch.org/weblog/2009/02/13/us-debates-patent-exam-deferrals-patent-reform->

up the processing of non-deferred applicants, as fewer applications will be in the examination queue.⁸¹

Additionally, this proposed deferral system would provide for early publication of deferred applications to serve as notice to the public and enforcement of the written description and enablement requirements.⁸² When the USPTO grants the deferral request, it would eventually make the content of the application and search report available to the public. This benefits the public in that they will have an easier time finding relevant prior art in their field and in understanding the technical challenges associated with issuing current applications.⁸³

D. Intervening Rights to Third Parties

Deferred examination has to address potential prejudices and uncertainty towards competitors of the applicant. One way to reduce concerns of uncertainty and prejudice towards competitors in adopting a deferred system is to grant intervening rights to any third party that, in good faith, commercializes the same invention during the deferral period.⁸⁴ More specifically, only those qualified third parties would have a legal, intervening right to practice that same, later-claimed invention.⁸⁵

bill-expected-this-year/.

81. See *IBM Recommendations*, *supra* note 54, at 6.

82. U.S. patent law requires that the application contain a written description of the invention being claimed; in other words, the application has to convey to the person of ordinary skill in that art what it is being claimed. 35 U.S.C. § 112. It also requires that the application enables a person of ordinary skill in that art to make and use that invention; in other words, the application has to provide a method of making and using the invention possible, without undue experimentation. *Id.* The Court of Appeals for the Federal Circuit (CAFC) will soon address in an *en banc* rehearing whether 35 U.S.C. §112, paragraph 1 contains a written description requirement, separate from an enablement requirement. See *Ariad Pharm. v. Eli Lilly*, No. 2008-1248, 2009 WL 5874322 (Fed. Cir. Aug. 21, 2009).

83. See *IBM Recommendations*, *supra* note 54, at 4.

84. *Id.*

85. *Id.*

E. Fee Schedule

The USPTO should also adopt a tiered payment system to defer at least some of the search and examination fees until the applicant requests examination – essentially, a “pay as you go” fee schedule.⁸⁶ This pay as you go fee schedule has multiple benefits, for both applicants and the USPTO. Applicants who decide to abandon the application obtain an overall cost savings since they will not have to pay for search and examination services never rendered. Likewise, this would allow the USPTO to allocate its resources towards more relevant, pending applications.⁸⁷ Another benefit is that with a low filing fee, the USPTO can more easily suggest imposition of a high examination fee at the end of the deferral period, resulting in many applications with low net market value being abandoned.⁸⁸ The USPTO should also consider reducing post-allowance and post-issuance fees on the applicant if he were to adopt deferred examination.

The USPTO should also consider refunding excess claims and excess pages fees, and should also refund search fees if that search predated the first action on the merits.⁸⁹ If the USPTO were to refund the search fee, the USPTO would need to and likely could balance the burden of lost, albeit small, revenue with the benefits of additional claim dropouts and saved man-hours.⁹⁰ The USPTO would also need to consider the reality that many third-party requesters are knowledgeable in that art area and have a vested interest in producing relevant search results.⁹¹

F. Extension of Patent Term Only Due to USPTO Delays

No extension of patent term should be made merely for the act of deferring examination. Such an extension would extend the

86. *Id.*

87. *Id.*

88. *Wegner Recommendations*, *supra* note 8, at 55.

89. *Id.*; see also Changes To Implement the Patent Search Fee Refund Provisions of the Consolidated Appropriations Act, 2005, 71 Fed Reg. 12281, available at <http://www.uspto.gov/web/offices/com/sol/notices/71fr12281.pdf>.

90. See *Katznelson Recommendations*, *supra* note 7, at 29.

91. *Id.*

monopoly of the patent owner, without a proportionate benefit to the public. Some art areas, such as pharmaceuticals and biotech, would likely support deferred examination if the patent term, and thus their large R&D investment, were not adversely adjusted. These particular industries have an urgency to file applications quickly, given the competitiveness of these industries.⁹² However, the Food and Drug Administration and other agencies heavily regulate the majority of the products in these industries; therefore, there really is little to no need for these industries to have hastily issued applications.⁹³ Moreover, the USPTO art unit that examines such applications typically has one of the longest pendency rates.⁹⁴

Extensions should be determined as they are under the current system. Extensions to a patent's term should only take place for those delays caused by the USPTO after the applicant has requested examination and paid the examination fee.⁹⁵ Any delay in issuance due to the applicant's deferral would result in a subtraction of patent term extension credit, per 35 U.S.C. §154(b).⁹⁶

III. APPLICATIONS UNDER THE PROPOSED DEFERRAL SYSTEM

A. *New Applications*

For new applications filed on or after the effective date of the deferred examination system, the applicant must defer examination; nonetheless, the applicant can choose the amount of time he wishes to defer examination of his application, for up to

92. Posting of Biotech Atty to *Patently-O Bits and Bytes No. 44: Deferred Examination*, PATENTLY-O, <http://www.patentlyo.com/patent/2008/06/patently-o-bi-5.html> (Jun 17, 2008, 10:27 EDT).

93. *Id.*

94. *See Katznelson Recommendations*, *supra* note 7, at 12.

95. Letter from Robert J. Yarbrough, Chairman, Penn. Intellectual Property Forum, to Robert W. Bahr, Commissioner for Patents, USPTO (Feb. 25, 2009) available at <http://yarbroughlaw.com/PA%20IP%20Forum/PA%20IP%20Forum%20advocacy/Deferred%20examination/comments%20to%20deferred%20examination%20proposal.htm>.

96. *Id.*

five years. The applicant can execute and file with the USPTO a Declaration and Non-Exclusive Limited Power of Attorney, which designates any third-party to act on the Applicant's behalf as Applicant's authorized agent for perfecting (completing) the patent application per 35 U.S.C. §111(a).⁹⁷ Applicants who do not file a request for examination within the maximum deferral period would have their application abandoned by operation of law.⁹⁸ The application would not be examined, and the applicant would lose any benefit of an earlier filing date.⁹⁹ Some argue that it would not be productive to have the patent term run during the deferral period without any tolling nor extension provision, as the current optional deferred system is not being used because of this inflexibility.¹⁰⁰ However, the patent term should run during deferral, and extensions to a patent's term should only take place for those delays caused by the USPTO after the applicant has requested examination and paid the examination fee. Any other circumstance would extend the monopoly of the patent owner without any additional *quid pro quo* benefit to the public.

Applications subject to a secrecy election, per 35 U.S.C. §122(b)(2)(B), would not be allowed to be deferred and would be examined according to the status quo examination track.¹⁰¹

B. Current Pending Applications

For current, pending applications filed before the effective date of deferred examination, the applicant can choose to defer his application if there has been no first office action on the merits, the application is not subject to a secrecy order under 35 U.S.C. §122(b)(2)(B), or the application has an effective filing date of less than fifty-eight months before the effective date of deferred

97. *Katznelson Recommendations*, *supra* note 7, at 15-16.

98. *Id.* at 15.

99. *Id.*

100. Roundtable panelist Hans Sauer of the Biotechnology Industry Association (BIO) indicated that BIO members opportunistically used the deferred system, and do not use the current optional system under 37 CFR 1.103(d) due to the forfeiture in patent term adjustment. *Roundtable Webcast*, *supra* note 26.

101. *Katznelson Recommendations*, *supra* note 7, at 15.

examination.¹⁰² For all such qualified, pending applications, the USPTO would send a Refund Election Action to all such applicants, requiring applicants to respond within sixty days and elect either an examination deferral election, under which the applicant would receive a refund of the Examination Fee¹⁰³ or continuation of the status quo examination track.¹⁰⁴

If the applicant does not respond “within six months after [the] action,” the USPTO, pursuant to 35 U.S.C. §133, will consider the application abandoned.¹⁰⁵ This alone would result in more abandoned applications and a smaller backlog, as a majority of applications in the current backlog would qualify for deferred examination. However, if all fees were already paid and the application was already perfected, per 35 U.S.C. 111(a), the USPTO would not be able to suspend examination of such applications, per 35 U.S.C. §131.¹⁰⁶

Alternatively, the USPTO could automatically defer examination of current, pending applications until the end of each application’s deferral period.¹⁰⁷ In the context of this proposal, examination could be deferred for up to five years beyond the effective filing date.

IV. HOW TO CODIFY THE PROPOSED DEFERRAL SYSTEM

A deferred system could be effected in two ways: (1) the USPTO could amend its rules, or (2) Congress could amend the U.S. patent statute. Generally speaking, there would be less debate and less delay if the USPTO just amended its rules. The problem is that these amendments would likely be more substantive in nature, as adopting deferred examination will have substantive effects in examination of patent applications, and the USPTO typically cannot unilaterally adopt substantive rules. Nonetheless,

102. *See id.* at 17.

103. The up to fifty-eight months pendency plus two months Refund Election Action would make examination deferral in all cases be up to the maximum proposed deferral period of five years after the application’s effective filing date. *Id.*

104. *Id.*

105. *Id.* at 17, 22.

106. *Id.* at 22.

107. *Wegner Recommendations, supra* note 8, at 72.

Mr. Kaztnelson asserts that no new legislation would be necessary to implement deferred examination, and he instead proposes a creative USPTO rule change on deferring excess-claim, search, and examination fees.¹⁰⁸ He also asserts that the proposed deferral system is within the clear intent and language of the patent statute, such that there is no need for *Chevron* agency deference.¹⁰⁹ More specifically, Mr. Kaztnelson argues that the USPTO has authority under 35 U.S.C. § 2(b)(2) to adopt a deferral system, which is supported by the legislative history of 35 U.S.C. § 41.¹¹⁰ This legislative history reveals that Congress specifically authorized the USPTO, per the Consolidated Appropriations Act of 2004, to charge separately for user fee components.¹¹¹ A perfected application requires the user fees to be paid, and the conditions of these fees can be set by the USPTO Director under 35 U.S.C. § 111(a)(3).¹¹²

Others feel that the USPTO has no statutory authority for such a change, and Congress would need to debate the issue of deferred examination and amend the patent statute.¹¹³

In this case, Congress would probably have to act by amending the U.S. patent statute.¹¹⁴ If this proposal of adopting deferred examination was considered separately from other more controversial patent reform proposals, such as damages and post-grant opposition proceedings, the proposal may pass through Congress with less debate and delay.¹¹⁵

108. *Kaztnelson Recommendations*, *supra* note 7, at 14.

109. *Id.* at 19.

110. *Id.*

111. *Id.* at 19-20.

112. *Id.* Consolidated Appropriations Act, Pub. L. 108-447, 118 Stat. 2809 (2005) amends 35 U.S.C. § 41 in a way that separates the application fee into three components: a filing fee, search fee and examination fee. According to Mr. Kaztnelson, this allows for separate payments or refunds of examination and search fees, therefore the USPTO can implement separate refunds and deferral procedures.

113. *Wegner Recommendations*, *supra* note 8, at 57.

114. *See e.g.* *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009) *vacated by* 2009 U.S. App. LEXIS 14611 (Fed. Cir. July 6, 2009).

115. Initial debates in the current patent reform bill centered around damages. *E.g.* Statement of Herbert C. Wamsley, Executive Director, Intellectual Property Owners Association, Before the Senate Judiciary Committee on "Patent Reform In The 111th Congress: Legislation And Recent

The current patent reform bill, also known as the Patent Reform Act of 2009, does not include any provisions directed towards deferred examinations.¹¹⁶ There are several possible reasons for the lack of deferred examination provisions in the current patent reform bill. The most likely reason is that many of the energies of the current patent reform bill have been focused on other, more controversial provisions, such as post-grant opposition, damages, and fee setting. Post-grant opposition has been a hot topic in the patent reform proceedings, largely because of the schism it creates between the pharmacy interest groups and the software interest groups.¹¹⁷ The pharmacy groups generally oppose it, because pharmaceuticals want strong patent protection and predictable results, in the form of issued, unopposed patents, for their substantial R&D investments.¹¹⁸

Another possible reason for the lack of deferred examination provisions in the current patent reform bill is that there are simply more stakeholders in patent law reform than ever before. Twenty years ago, there were fewer Congressional committees, less federal agencies, and consensus on controversial pending bills was easier to achieve. Today, however, there are more trade associations and bar groups, more federal agencies, and more Congressional committees involved in IP matters. Thus, important issues take longer to resolve; this helps explain why Congress has failed to pass patent reform on a number of occasions. Historically, IP legislation has only been passed at crunch time (e.g., in the last

Court Decisions”, Tuesday, March 10, 2009, Page 13, available at <http://judiciary.senate.gov/pdf/09-03-10Wamsleytestimony.pdf>. Now, the debates are more centered on post-grant opposition proceedings. Small businesses are generally resisting such proceedings, as they would undermine the presumption of an issued patent being valid and cause serial attacks on patents. Many large technology companies seem to favor post-grant opposition proceedings because it would strengthen their patent portfolio. Kristina Peterson, *Proposed Change in Patent Policy Pits Big Firms vs. Small*, WALL STREET JOURNAL, Nov. 4, 2009.

116. See Patent Reform Act of 2009, S.515, 111th Cong. (2009) available at <http://www.govtrack.us/congress/billtext.xpd?bill=s111-515>.

117. See Univ. of Akron School of Law, Class Discussion: IP Policy and Politics (Mar. 16, 2009) (hereinafter *Class Discussion*).

118. *Id.*

couple weeks of the second and final session of Congress.)¹¹⁹ If history holds true, then the patent reform act will likely not pass until the end of calendar year 2010.

V. PROPOSED DEFERRAL SYSTEM – ADVANTAGES

A. *Benefits for the Inventor and Assignees*

A deferral system would benefit both the inventor (applicant) and potential assignees (corporations). Applicants could defer paying fees, which would save them money on those applications they no longer decide to pursue. The applicant might decide to terminate prosecution of an application for various reasons: it might be because the invention is no longer commercially viable, because of newly discovered prior art, or because the invention has lost its significance and impact. The applicant would then be allowed to defer key patenting decisions until both the application's technical features and the market opportunity for the invention are reasonably understood.¹²⁰ In other words, an applicant could decide whether to pursue key patenting milestones based on available material data.

Generally speaking, across a variety of industries, by the time a patent issues, its claims may be obsolete. Thus, resources can be saved if those obsolete and commercially unviable claims are not examined.¹²¹ Claim obsolescence is especially prevalent in consumer products goods and in generic pharmaceuticals, given their short product lifecycle.¹²² In the end, the USPTO, or any other adopting office, would have to review fewer applications.¹²³

Another advantage for the applicant under a deferred examination system is that the applicant would be able to defer

119. *Id.*

120. *Katznelson Recommendations, supra* note 7, at 8.

121. *Id.* at 2, 5; *Eli Lilly Recommendations, supra* note 51, at 3 (referring to the current backlog and pendency times as “patents issuing on museum-ready inventions”).

122. *Id.* at 6-7.

123. *Fieseler, supra* note 60, at 12.

and/or save user fees and prosecution costs.¹²⁴ Law firms and the patent bar may be opposed to deferred examination for this reason, as fewer patent applications would be prosecuted.¹²⁵ But this view is shortsighted: new opportunities will arise for law firms and the patent bar. For example, patent counsel will be needed to review the cited art, and its impact, from the search reports published and issued to the applicant before examination. In addition, patent counsel will be needed to provide strategic guidance to clients during the deferral period, as clients will have to determine the optimum times to initiate the search, examination, and/or abandonment of a case, and whether to request accelerated examination of a competitor's deferred application.¹²⁶

Deferred examination gives inventors the realistic opportunity to craft the intended language and scope of their claims until the appropriate circumstances present themselves, vis-à-vis products being put on the market by the applicant or his competitors.¹²⁷ Here, some people believe that corporations will bully competitors by claiming to have more patents pending.¹²⁸ However, the countervailing consideration is that corporations put forth substantial, long-term R&D investments in their inventions, and so it is also in their interest to perfect such inventions. According to the chief IP counsel of Johnson & Johnson, for example, each of its U.S. patents creates or saves seven and one-half jobs per year.¹²⁹ Over the past three years, Johnson & Johnson has invested over \$6 million in R&D for each patent application and a total of \$15 million for each issued patent.¹³⁰

Finally, the USPTO can concentrate on applications that

124. *Katznelson Recommendations*, *supra* note 7, at 8.

125. *See IBM Recommendations*, *supra* note 54, at 7.

126. *Id.* at 7.

127. *U.S. Chamber of Commerce Recommendations*, *supra* note 4 at 20.

128. PTO Restructuring Could Increase Patent Pendency and Harm Quality, PATENTLORE, June 3, 2002, <http://www.patentlore.com/ptocorner/popa.htm>. This article is by a member of the Patent Office Professional Association, the union of the USPTO patent examiners.

129. *Patent Reform Act of 2009: Hearing Before the S. Comm. on the Judiciary*, 111th Cong., 1st Sess. 5 (2009). (testimony of Philip S. Johnson, Chief IP Counsel, Johnson and Johnson, Inc., on behalf of the Coalition for 21st Century Patent Reform).

130. *Id.*

applicants consider important, as applicants are in the best position to make such determinations.¹³¹ Many corporations have fixed IP budgets, and may be apt to file more applications if they knew that some of their deferred applications would eventually not be pursued, so that they would not have to incur additional prosecution costs.¹³² This is good public policy: deferred, abandoned applications that are published would serve as prior art, similar to a previously published, abandoned application, which is available as prior art under 35 U.S.C. § 102(a) and § 102(b) as of its publication date. Such prior art expands the public's knowledge base and will defeat new applications that read on this prior art.

B. Benefits for the USPTO

A deferral system would also benefit the USPTO, because it would reduce its backlog, increase the capabilities of its workforce, and allow it to issue more valid patents; this would, in turn, increase the public's confidence in the USPTO. As shown in the above USPTO operating statistics in Section I(a) *supra*, a doubling of examiner force and new applications have done nothing to stem a 55% increase in backlog; theoretically, these changes should have resulted in a decrease, or at the very least, a no net change in backlog.

A deferred system will allow the plethora of inexperienced USPTO examiners to obtain more needed technical and legal training before they influence the course of patent applications. Since the USPTO will be able to defer examination for incoming applications for up to five years, this would enable the USPTO to focus on reducing the active application backlog.¹³³ In the end, there would be a net savings in examination workload, as the USPTO would no longer have to examine claims that the applicant

131. *U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 20.

132. See Matt Osenga, *PTO Roundtable Finds Support for Deferred Examination*, INVENTIVE STEPS, Feb. 17, 2009, <http://inventivestep.net/2009/02/17/pto-roundtable-finds-support-for-deferred-examination/>.

133. *Id.*

no longer needs and would not need to devote as much time to processing continuing applications such as RCEs.¹³⁴

A deferred system would take full advantage of PCT search results of material prior art, which would save the USPTO substantial examination time and allow the USPTO to more quickly and efficiently reduce its backlog.¹³⁵ Deferred examination leads to better search reports and more relevant prior art from interested third-parties with expertise in that art to build a workable record of prosecution.¹³⁶ Deferred examination also translates into higher quality examinations, as the USPTO could focus its search and examinations on those pending applications that encompass technologies that are of importance¹³⁷ and examiners would have a more complete basis to examine applications (e.g., more prior art). Finally, the deferred system may help reverse the current reduction in new filings and incoming fees to the USPTO.¹³⁸ The USPTO may gain revenues using a more back-loaded patent maintenance fee structure, since examination investments would only be made on those patents that have a realistic chance of being renewed.¹³⁹ Those who oppose the USPTO adopting deferred examination argue that it results in an unacceptable loss of income, as approximately one-third of USPTO revenues come from filing fees.¹⁴⁰ However, deferred examination could actually result in an increase in application filings, which would therefore generate greater income.¹⁴¹ For example, India adopted deferred examination in 2003 and since then, the number of patent application filings have tripled from

134. *Katznelson Recommendations*, *supra* note 7, at 8.

135. See discussion in *supra* I(B) and II(A); see also *U.S. Chamber of Commerce Recommendations*, *supra* note 4 at 10.

136. See *U.S. Chamber of Commerce Recommendations*, *supra* note 4 at 20; *Katznelson Recommendations*, *supra* note 7, at 8.

137. See Fieseler, *supra* note 60, at 12.; James Wang, *Deferred Examination Considered by U.S. Patent Office*, OC Patent Lawyer (March 7th, 2009), <http://ocpatentlawyer.com/deferred-examination-considered-by-us-patent-office/>.

138. In Fiscal Year 2009, USPTO filings are down 1%. See Osenga, *supra* note 132.

139. *Katznelson Recommendations*, *supra* note 7, at 8.

140. See, e.g., *Eli Lilly Recommendations*, *supra* note 51, at 21, 29.

141. *Id.* at 24.

12,000 applications to 36,000 applications.¹⁴² India's lower front-end fees have encouraged Indian inventors to apply.

In conclusion, the benefits that the USPTO would see from the adoption of such a system are significant, as it would allow the USPTO to increase patent office revenues and reduce its backlogs.¹⁴³

C. *Benefits for the Public*

Such a deferred system would also benefit the public. There would be less pendency time because an applicant normally would not be able to obtain patent term adjustment credit.¹⁴⁴ In addition, there would be less R&D costs, which are ultimately passed on to the consumer, in designing around claims that currently issue under the status quo system.¹⁴⁵ Also, this proposed deferral system would serve one of the main goals of the patent system, which is early dissemination of technological advances. This deferred system is good public policy: deferred, abandoned applications that are published will serve as prior art and expand the public's knowledge base. The general public will have an easier time finding relevant prior art in their field, and in understanding the technical challenges associated with current applications.¹⁴⁶ Finally, this proposed deferral system would increase the quality of issued patents, and therefore increase the public's confidence in our patent system.

VI. PROPOSED DEFERRAL SYSTEM – ADDRESSING POTENTIAL DISADVANTAGES

There are reasons that a deferred examination system has not yet been adopted at the USPTO. The USPTO has offered an optional, non-adjustable patent term deferred system for non-provisional

142. *Id.* at 24-25.

143. MARTIN J. ADELMAN, ET AL., *CASES AND MATERIALS ON PATENT LAW* 543 (3d ed. 2009).

144. *Id.* at 8, 29; *see* discussion *supra* Section II(F).

145. *Id.*

146. *See* discussion *supra* Section II(C).

U.S. applications, per 37 C.F.R. 1.103(d). However, since 2000, only two hundred applicants have taken advantage of this deferred option.¹⁴⁷ In other patent offices, such as the JPO, examination fees are deferred and examination is optional, but in the U.S., the fees to commence prosecution must be paid upfront, including an additional \$130 processing fee, per 37 CFR 1.17(i), to initiate deferred examination. The JPO also allows applicants to defer paying the request for examination fee for up to one year from filing, which is another step in the right direction for a deferred examination system.¹⁴⁸

Another shortcoming of the present deferred option is “inertia.” In Japan, the prior art search and examination is already deferred upon submitting the application and no action is needed to start the deferral; in the U.S., however, applicants need to take additional action to start the deferral.¹⁴⁹ In the U.S., an application filed under the deferred option must be ready for publication, per 37 CFR §1.211(c), which involves payments of multiple fees. Moreover, the applicant must choose the number of months to defer examination, per 37 CFR 1.103(d). At the time of filing, applicants often do not have enough data to make an informed decision on the number of months to defer examination. The only other deferred option in the U.S. is to file a petition under 37 C.F.R. §1.103(a) for “good and sufficient cause” to defer for short periods; however, this involves substantially more preparation time and costs for applicants, as compared to the alternative of filing an affirmative request.

There are also concerns that a deferred examination system could lead to a lack of notice and unwarranted shift in the scope of claims, may unfairly shift third-party burdens of on-demand examination, increase submarining of patents and have U.S. labor

147. See Request for Comments and Notice of Roundtable on Deferred Examination for Patent Applications, 74 Fed. Reg. 4946-47 (Jan. 28, 2009) available at <http://www.uspto.gov/web/offices/com/sol/notices/74fr4946.pdf>; Viana, *supra* note 80.

148. *Japanese Patent Office Announces Deferred Fees for a Request for Examination for Patent Applications*, ONDA TECHNO.COM, Apr. 1, 2009, http://www.ondatechno.com/English/ip/patent/report/20090401_2.html.

149. Deferred Examination: PTO to Hold Roundtable Discussion, PATENTLY-O, <http://www.patentlyo.com/patent/2009/01/deferred-examination-pt-to-hold-roundtable-discussion.html> (January 28, 2009 12:38 EST).

ramifications. Each of these concerns is addressed below.

A. Lack of Notice and Claim-Shifting

Opponents of a deferred examination system argue that such a system would not provide adequate notice to the public regarding the metes and bounds of the invention. This is a moot argument, given that the status quo system has a more than eighteen-month delay in a first action on the merits.¹⁵⁰ These concerns will continue to be addressed under the deferred system via the specification disclosure and claim definitiveness requirements of 35 U.S.C. § 112. Additionally, current continuing application practice raises such concerns of notice and late claiming. Those opposing a deferred system should have the burden of proving that there are more harmful net effects of public notice with this proposed deferred examination system.¹⁵¹

There is a greater benefit that outweighs any public notice delay in deferred applications: 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 issued applications.¹⁵² The proposed system would also mitigate another public harm; with such a system, applicants can reduce R&D costs, and this savings would ultimately be passed onto the consumer.¹⁵³ Under the status quo system, innovators have to invest R&D in non-infringing solutions that design around claims that, due to intervening prior art and/or the invention is no longer commercially viable, never would have issued under a deferred system.¹⁵⁴

Additionally, the specification in patent applications already serves to apprise the public of any supported claims that would later issue.¹⁵⁵ The disclosure requirements of 35 U.S.C. § 112 paragraph 1 demand this: the specification must describe the function in “full, clear, concise, and exact” terms. Moreover, any

150. *Katznelson Recommendations*, *supra* note 7, at 24.

151. *Id.* at 25.

152. *Id.*

153. *See id.*

154. *Id.*

155. *See U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 20.

late claiming concerns are generally moot, as the claims in such applications must satisfy 35 U.S.C. § 112 paragraph 2, which demands that the claims “particularly point out and distinctly claim the subject matter” of the applicant’s invention. The policy behind this requirement of claim definiteness in 35 U.S.C. § 112 is two-fold: to stake the boundaries of the inventor’s property rights and to provide the public with notice of what is proprietary and what can be exploited.¹⁵⁶

Concerns about applicants abusing increased claim scope under a deferred examination system are moot if anyone has legal, intervening rights to practice the patented invention, so long as that party’s practice or preparations took place before the first addition of a claim to cover that embodiment.¹⁵⁷ In other words, the first user is free from infringing claims added after practice or preparations for such use.¹⁵⁸ Publishing the applications upon the request of deferral and a mechanism to force early examination by third-parties also address these concerns.

Finally, these concerns persist in the current system: in particular, continuing applications, such as continuation-in-parts and RCEs, present significant difficulties. Continuation practice already has introduced these harmful effects, along with substantial delays and uncertainty, into patent law system.¹⁵⁹ In addition, continuation practice depletes USPTO resources.¹⁶⁰ As a result, the U.S. Chamber of Commerce has proposed that the USPTO get rid of RCEs, which only prolong examination and create uncertainty on the metes and bounds of an invention. Overall, continued applications have become increasingly more common in modern USPTO practice, as the total number of continuation applications, relative to the number of total applications filed, has risen from 18.9% of applications in 1990 to approximately 30% of applications in 2006.¹⁶¹ In particular, RCE filings now represent almost 20% of the total applications filed, up

156. ADELMAN, *supra* note 143, at 511.

157. *Wegner Recommendations*, *supra* note 8, at 54.

158. *Id.* at 83.

159. Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. REV. 63, 65 (2004).

160. *Id.*

161. ADELMAN, *supra* note 143, at 536.

from just 8% from ten years ago.¹⁶²

The argument that the proposed deferred system would exacerbate late claiming should be disregarded, given that the status quo already allows the same thing via continuing applications.¹⁶³ Thus, continuation practice could be eliminated under the deferred system,¹⁶⁴ and the quid pro quo of patents would still be preserved, based upon 35 U.S.C. § 120 and 35 U.S.C. §112.¹⁶⁵

B. Third-Party, On-Demand Examination Unfairly Shifts Burdens

Under a deferred examination system, third parties such as competitors to the applicant could demand an earlier examination by paying a fee.¹⁶⁶ Opponents of third-party, on-demand examination argue that this would shift an unfair burden onto competitors to pay for starting an examination on somebody else's application.¹⁶⁷ However, third-party, on-demand examination merely time-shifts a post-issuance demand – the competitor would pay anyway to challenge an issued patent. Raising such challenges earlier on in the prosecution process would actually benefit the competitor, as the competitor would bound the scope of the challenge and the challenges would cost less as compared to post-issuance challenges (due to inflation and an undeniable future increase in fees over time). Some may argue that applicants in the current economic recession need issued patents more than ever to raise capital, and so deferred examination would not be in their best interests.¹⁶⁸ However, the countervailing consideration is that

162. *U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 5, 24.

163. *Katznelson Recommendations*, *supra* note 7, at 27.

164. *Id.*

165. *Id.*

166. *Id.* An additional option would be to allow the Director to cancel any official deferral. See Letter of Norman L. Balmer, President, Intellectual Property Owners Assoc., to Hon. Bruce A. Lehman, Commissioner of Patents & Trademarks (December 4, 1998) available at <http://www.ipo.org/AM/Template.cfm?Section=Search&template=/CM/HTMLDisplay.cfm&ContentID=3402>.

167. *Id.*

168. See Donald Zuhn, *Patent Office Hosts Roundtable on Deferred*

many companies would rather choose to defer costs and deeper investment in products that may or may not have commercial viability.¹⁶⁹

C. Increased Submarining of Patents

Another potential concern is that the practice of submarining patents would increase under a deferred, PCT-like system. However, submarine patenting, a practice that delays issuance of patents to surprise a mature industry, is a symptom of the status quo continued application system.¹⁷⁰ Submarining is also more an issue because of the U.S.'s outdated laws concerning patent litigation and patent damages.¹⁷¹ Current litigation rules fail to deter non-practicing entities (NPEs, also known as "patent trolls") from filing frivolous suits, because NPEs do not face a counter-threat of infringement claims since they do not make, use, nor sell any allegedly infringing products.¹⁷² Costs to NPEs to plead and file suit are minimal, whereas defendants have to bear a substantially greater cost in answering each element of the NPEs pleading, which often times is a deluge of information relating to development of defendants' products, customer demand for defendants' products, etc.¹⁷³ Additionally, the current standard for assessing damages is vague and risks being excessive relative to the patent's contribution to a product.¹⁷⁴ Finally, the submarining of secret patents, per 35 U.S.C. §122, would be reduced, as secret submarine patents under these applications would not be eligible for deferral; therefore, they would move ahead in the exam queue

Examination: The Opposition, PATENTDOCS.ORG, Feb. 12, 2009, <http://www.patentdocs.org/2009/02/patent-office-hosts-roundtable-on-deferred-examination-the-opposition.html> (describing Gordon Arnold's arguments on behalf of the ABA).

169. See discussion *supra* Section V(a).

170. Lemley & Moore, *supra* note 159, at 65.

171. *Patent Reform Act of 2009: Hearing Before the S. Comm. on the Judiciary*, 111th Cong., 1st Sess. 5-7 (2009)(testimony of Steven Appleton, CEO Micron Technology, Inc.)

172. *Id.*

173. *Id.*

174. *Id.*

and be published earlier.¹⁷⁵

D. U.S. Labor Concerns

A deferred examination system also raises U.S. labor workforce issues. The current Patent Reform Act of 2009 includes a Search and Examination Functions provision, which forecloses the possibility of work sharing substantive examination of patent applications and prior art searches amongst national patent offices.¹⁷⁶ One reason for this provision could be to preserve national sovereignty, but that is a veiled and less significant reason.¹⁷⁷ The main policy rationale for such a provision is that labor unions are a major stakeholder in Democratic Party politics.¹⁷⁸ Every non-management USPTO employee is represented by one of three unions that want to keep the work here at home: the Patent Office Professional Association (POPA, representing patent examiners), the National Treasury Employees Union (representing trademark examiners), and its separate chapter (representing clerical staff).¹⁷⁹

The answer here is simple: remove the above mentioned Search and Examination Functions provision in the Patent Reform Act of 2009, but do not allow foreign offices to issue a final grant.¹⁸⁰ Cosmetic solutions, such as providing the examiner one additional hour of substantive examination, will not solve the backlog and pendency issues while satisfying the labor unions.¹⁸¹ The USPTO

175. See discussion *supra* Section III(a) and Section III(b); *Katznelson Recommendations*, *supra* note 7, at 25.

176. However, the USPTO may revisit this provision following last winter's Roundtable on work sharing. Roundtable on Work Sharing to be held November 18, 74 Fed Reg. 54028-29 (October 21, 2009), *available at* <http://www.uspto.gov/about/offices/opa/74fr54028.pdf>.

177. See *Class Discussion*, *supra* note 117.

178. *Id.*

179. *Id.*

180. See discussion *supra* II(A); *Wegner Remarks*, *supra* note 57.

181. Todd Dickinson, at the 2009 University of Akron IP Symposium, proposed that examiners be provided an additional hour for each application to substantively examine it. Todd Dickinson, Remarks at the University of Akron IP Symposium, Panel Discussion: Impact of Obama Administration on IP Policy (2009). Harold Wenger, a peer panelist at the Symposium, argued that an additional hour is essentially a churning, recurring, and never solved

recently issued a notice reminding applicants that their selection of certain ISAs with limited competency of the subject matter of the application will result in delays in issuing the ISR.¹⁸² This notice reinforces USPTO's current stance that the work of particular ISAs should not be recognized, a stance that runs counter to worldwide harmonization and patent work sharing efforts.

U.S. labor concerns need to be balanced by worldly considerations. First, many other patent offices, whose nations are trading partners with the U.S., offer either deferred examination or some form of a delayed examination process.¹⁸³ These nations include Argentina, Australia, Canada, China, EPO, Germany, India, JPO, Korea, Romania, Russia, and Thailand.¹⁸⁴ Second, despite the U.S.'s artificial labor stances, worldviews and approaches to solving problems are naturally gravitating towards a PCT-like, deferred practice. As pointed out in one of the recent hearings on patent reform, the nature of innovation has changed to the point where "interconnected technologies have created an environment that allows groups of people to innovate together across enterprises and national boundaries."¹⁸⁵ Products entering the market that satisfy consumer demands are becoming more complex.¹⁸⁶ This market force has increasingly led to contributions from more than a single inventor and involves the licensing of hundreds of patented inventions – a term dubbed "collaborative innovation."¹⁸⁷ This reflects an even greater need to vet out prior

problem, as approximately one-third of applications filed are continuing applications. *Wegner Remarks, supra* note 57.

182. John Dole, Limited Competency of Certain International Searching Authorities With Respect to Applications Filed in the USPTO (March 13, 2009), available at http://www.uspto.gov/web/offices/pac/dapp/opla/preognotice/20090313_epo-ipau.pdf.

183. *Eli Lilly Recommendations, supra* note 51, at 5.

184. *Id.* at 65-66.

185. *Patent Reform Act of 2009: Hearing Before the S. Comm. on the Judiciary*, 111th Cong., 1st Sess. 7(2009)(testimony of David J. Kappos, Under Secretary of Commerce for Intellectual Property and Director of the USPTO and former VP and Assistant General Counsel IP Law and Strategy, IBM Corporation).

186. *Id.*

187. *Id.*

art and perfect an invention before patent issuance. Nowadays, perfection of an invention involves more interdisciplinary approaches and backgrounds to solve these increasingly complex issues. Translated to each of the international patent offices, this collaborative innovation would involve interdisciplinary work sharing to harmonize the worldwide patent law practice.

E. Other Concerns

Opponents of a deferred system also argue that it would increase patent litigation (already an increased investment and stake by applicant and/or competitor of associated product) and the number of filed applications, since lower front-end fees would encourage inventors to apply. At the same time, opponents point to a lack of quantitative research that deferred examination correlates to patent quality and they assert that, under this system, more applicants would forego performing their own prior art search prior to submission of the application.¹⁸⁸

However, some of these potential concerns have not been fully vetted. For example, U.S. applicants currently are not required to perform their own prior art search when applying for a U.S. patent. Regarding the potential increase in litigation for adopting a deferred system, Roundtable participant Ken Patel, IP Counsel for Procter and Gamble, shared that Procter and Gamble's experience with deferred examination in Japan was not positive. This was due to an increase in infringement actions on such deferred examination patented-products that were on the Japanese market for five-plus years.¹⁸⁹ However, early (i.e., standard eighteen months from date of request) publication of deferred applications and the enforcement of the existing written description and enablement requirements, per 35 U.S.C. § 112, should address the problems of lack of notice and claim scope shifting, because the specification in deferred applications would serve to apprise the public of the likely, supportable claims that would be crafted.¹⁹⁰ Increasing the maintenance fees (higher back-ended fees) with a deferred examination procedure (lower front-end fees) would

188. See *U.S. Chamber of Commerce Recommendations*, *supra* note 4, at 21.

189. *Roundtable Webcast*, *supra* note 26.

190. See discussion *supra* Section VI(A).

curtail the submarining of patents by NPEs, because such a fee structure would encourage applicants to abandon those applications having a low commercial value.¹⁹¹

Others have questioned whether the evidence suggests that deferred examination alone solves a patent office's pendency and backlog issues. The USPTO, with an average pendency time, amongst all art units, of 32 months, does not have deferred examination.¹⁹² The EPO and JPO, patent offices that have deferred examination, have average pendency times, amongst all art units, of 44 and 32 months, respectively.¹⁹³ The Canadian patent office, which has deferred examination, has an average pendency time amongst its art units between 20 (mechanical) and 33 (electrical and biotech) months.¹⁹⁴ These numbers suggest that patent offices worldwide—with and without deferred examination—are struggling with their own backlog and pendency issues.¹⁹⁵ However, when examining the operating statistics in greater detail, international offices that have adopted deferred examination have shown convincing improvement.

VII. INTERNATIONAL PATENT OFFICE EXPERIENCES WITH DEFERRED EXAMINATION

The EPO, which utilizes an eighteen to twenty-four month deferral system, went from approximately eleven claims in an application in 1988 to seventeen in 1999 with a stable 90% examination rate (10% application dropout rate).¹⁹⁶ Examination rate is the percentage of applications that are ultimately examined, after amended, withdrawn, and abandoned claims/applications are taken into consideration.¹⁹⁷

The JPO, which originally used a seven-year deferral system, saw its average claim number in an application rise from three in

191. See *Wegner Recommendations*, *supra* note 8, at 55.

192. *Katznelson Recommendations*, *supra* note 7, at 3, 7.

193. *Eli Lilly Recommendations*, *supra* note 51, at 9.

194. *Id.*

195. *Id.* at 10.

196. *Katznelson Recommendations*, *supra* note 7, at 10; *Eli Lilly Recommendations*, *supra* note 51, at 6.

197. *Katznelson Recommendations*, *supra* note 7, at 10.

1988 to seven in 1999: this resulted in a 15% increase in the examination rate, from 45% to 60% (meaning a 40% application dropout rate).¹⁹⁸ Today, the JPO uses a three-year deferral system, and statistics indicate that the JPO averages approximately eight claims per application and has a 70% examination rate (30% application dropout rate).¹⁹⁹ When the JPO transitioned from a seven to a three-year deferral system in 2005, the number of filings decreased from 427,000 in 2005 to 396,000 in 2007, yet during that time, the rate of examination requests stayed steady at 95% of total filings.²⁰⁰ Overall, from 2000 to 2007, there were over 40,000 less filings, as only 60% of filings had examination requests. However, in that same time period, over 100,000 more examination requests took place.²⁰¹ These statistics provide evidence that a deferred examination system more efficiently solves a major patent office's backlog.

The search report impacts patentability of the claims and the abandonment rate of a patent office. The search report leads to substantial abandonment prior to examination across a wide variety of technology clusters: in the EPO, there was a two to eight percent abandonment rate pre-search report, and this rises to between nine and fifteen percent post-search report.²⁰² Given this abandonment rate, there are projections that the claim dropout rate would equal twenty percent at the USPTO.²⁰³ In total, the results and success seen in other countries that have adopted a deferred examination system of some type provide strong evidence of the fact that such a system will positively impact the USPTO backlog.

VIII.CONCLUSION

To date, the USPTO has attempted to solve its many problems by merely throwing resources, in the form of increased budgets and more workers, at them. Yet, these problems have not been fixed. Although the President of POPA argues that the recent

198. *Id.*

199. *Id.*; *Eli Lilly Recommendations*, *supra* note 51, at 6.

200. *Wegner Recommendations*, *supra* note 8, at 91.

201. *Id.*

202. *Katznelson Recommendations*, *supra* note 7, at 11-12.

203. *Id.* at 14.

hiring surges need more time to take effect before the USPTO adopts deferred examination,²⁰⁴ sufficient time has passed and the hiring surges have yet to have a positive effect on the problem.²⁰⁵

If the USPTO were to implement a deferred examination practice in a manner similar to the proposed deferral system presented in this paper, progress can be achieved in reducing transaction costs, facilitating innovation and trade, and harmonizing our patent laws with those of the rest of the world.²⁰⁶ Flexible deferral of examination, at a maximum of five years, will allow more previously undiscovered prior art from the date of filing to become available to examiners over time. Applicants can then decide which applications are important, which would allow the USPTO to focus on the most important pending applications.²⁰⁷ In addition, a deferred system would enhance the technical and legal capabilities of the USPTO examiner corps while substantially saving USPTO resources, increasing the quality of issued patents, increasing public confidence in our patent system, directly and positively addressing the backlog and pendency issues, and providing applicants and assignees with the opportunity to defer costs and perfect their inventions. Any potential concerns about this proposed deferred examination system are either directly addressed by the proposed system or are more directly related to other non-related issues such as damages and outdated litigation laws.

204. Zuhn, *supra* note 168.

205. *See generally Wegner Recommendations, supra* note 8.

206. Other patent offices, such as the Japanese Patent Office, and Canadian Patent Office, enable applicants to defer examination up to three years from the date of filing. *See Osenga, supra* note 132.

207. *IBM Recommendations, supra* note 54, at 1.

