



# PATENT, TRADEMARK & COPYRIGHT



## Legislation/Patent Reform

### Some Changes in 2009 Patent Reform Bills May Have Negative Impact on PTO Operations

The companion patent reform bills, H.R. 1260 and S. 515, introduced into Congress March 3 differ little from last year's legislation, but some changes to provisions in the current measures could have a negative impact on the operations of the Patent and Trademark Office, according to past executives of the agency.

The most obvious departure from the earlier legislation is the new bills' elimination of provisions on applicant quality submission, or AQSs—a requirement that would have moved initial prior art search responsibility to patent applicants. Several of the former PTO officials were not disturbed to see those provisions dropped, saying that they regarded the AQS requirement largely as a Bush administration initiative. They were more concerned about the bills' failure to deal with fee diversion, and about its uncertain commitment to PTO work-sharing partnerships with foreign patent offices.

**Bills Largely 'From Where We Left Off.'** Joined by co-sponsors Sen. Orrin G. Hatch (R-Utah), Rep. Lamar S. Smith (R-Texas), and Rep. John Conyers Jr. (D-Mich.) at the March 3 news briefing on Capitol Hill, Sen. Patrick J. Leahy (D-Vt.) said that the new bipartisan, bicameral House and Senate bills pick up where the debate on the last bills left off in 2008 (77 PTCJ 438, 3/6/09).

At the end of the last Congress, the House had approved its revised version of the legislation (H.R. 1908, 74 PTCJ 549, 9/14/07), but the Senate Judiciary Committee's final version of its bill, S. 1145 (74 PTCJ 370, 7/27/07), was never brought to the full Senate. The two major issues outstanding, the legislators at the March 3 briefing all agreed, were proposals to limit damages calculations and to end or at least limit inequitable conduct litigation.

However, Leahy also announced the demise of the AQS provision "due to near uniform opposition we heard from the patent community about the burdens this would place on applicants."

Hatch further did not hide his criticism of the PTO in his statement that the new Senate bill accedes to the approach to post-grant review of patents taken in last year's House bill, one that eliminates a "second window" of review by the PTO. "The current administra-

tive review process at the USPTO is widely viewed as ineffective and inefficient," he said.

BNA asked four former executives at the PTO for their views on the PTO-related differences between last year's patent reform initiatives and the pending S. 515 and H.R. 1260. Responding were:

- Bruce A. Lehman of Whiteford, Taylor & Preston, Washington, D.C., who served as PTO commissioner from 1993 through 1998;
- Q. Todd Dickinson, PTO director from 1998 to 2001, and current executive director of the American Intellectual Property Law Association, Arlington, Va.;
- Nicholas P. Godici, commissioner of patents from 2000 to 2005, and now executive advisor to Birch, Stewart, Kolasch & Birch, Falls Church, Va.; and
- Jonathan W. Dudas of Foley & Lardner, Washington, D.C., and director from 2004 to 2009.

**AQS Elimination Not Mourned.** Last year's House bill, H.R. 1908, authorized the PTO to require applicants to submit an AQS, or search report and other information relevant to patentability, though it provided an exemption for micro-entities. In the Senate counterpart, S. 1145, the AQS filings were mandatory, not at the agency's discretion. The current measures do not contain such a requirement.

BNA asked the former PTO chiefs whether failing to include the AQS requirement in the current measures would impair the PTO's ability to reduce its backlog, since a primary goal of that provision was to reduce the examiners' processing requirements on each application.

Dudas was not convinced that it was not still on the table, at least in some form. "There are many different ways to address the issue of quality," he said, adding that the legislators signaled they were open to any proposals for improving the bills.

While the other three executives acknowledged the PTO's recent interest in an AQS provision, none regretted its absence from the bills.

Dickinson said that the AIPLA sees the AQS requirement, "as formulated," as too controversial. But he appreciated the desire for a "conversation about what kinds of disclosure and dialogue can go on between the applicant and office to enhance the quality of the application."

As he had previously asserted at the mid-winter meeting of AIPLA (77 PTCJ 333, 2/6/09), however, Dickinson said that such a conversation is tenable only when requirements for additional disclosures are linked

to reforms that would limit assertion of the inequitable conduct defense against patent holders in patent infringement actions. “The quid pro quo is that you want to have a more interactive process between the applicant and the office,” he said, but that interaction should not make the patent applicant more vulnerable to charges of inequitable conduct.

Lehman and Dickinson, who both served in the Clinton administration, tied the AQS requirement from last year’s legislation to the “Bush administration’s PTO.”

Lehman was particularly critical of the AQS proposals, likening the PTO’s insistence on those provisions to its equally controversial proposal requiring examination support documents from applicants who submit an excessive number of claims. In that case, despite more than 500 written public comments, almost exclusively negative, the PTO proceeded to publish the new rule anyway (72 Fed. Reg. 46,716; 74 PTCJ 527, 8/31/07).

“The previous administration totally blew it; they asked for something and then totally abused it,” according to Lehman.

Godici, who served in the Bush administration but left before the AQS requirement became an issue, agreed that “Congress is doing the right thing by leaving it out.” He suggested that requiring applicants to file an AQS could, in fact, diminish patent quality.

“One of the reasons the PTO wanted AQS was so that they could . . . reduce the amount of time the examiner would work on each case, and I just think that would be the wrong direction,” Godici said. “If you’re concerned about quality, you want to give the examiner enough time to do the job right.”

**Fee Diversion Could Negate Fee-Setting Authority.** Dudas, Godici, and Dickinson were more concerned with the bills’ elimination of a provision to end the diversion of user fees from the PTO to other government operations. Currently, Congress revisits each year whether to allow such a re-routing of PTO fee revenues. When the Senate Judiciary Committee acted on S. 1145, an amendment from Sen. Tom Coburn (R-Okla.) to halt the PTO fee diversion was adopted (74 PTCJ 731, 10/19/07), but the fee-diversion prohibition is not in either of this year’s bills.

In written materials distributed to reporters at the March 3 news briefing, the legislators gave this rationale for abandoning the fee-diversion provision: “The sponsors heard strong opposition both from leaders of the Senate Appropriations Committee and the union representing patent office examiners because it would leave Congress without the necessary oversight that comes with the appropriations process.”

But Dickinson, together with AIPLA Communications Director James Crowne, argued that the “revolving fund alternative” outlined by Colburn in his amendment would mean that whatever money was collected would continue to be available to the PTO while appropriators would continue to be able to exercise oversight.

Lehman saw a political and economic reality behind the lack of a fee-diversion prohibition in the current measures, though. “I think you have to be realistic, however, about the environment that we are in right now. . . . Society at large is in a hole and everybody has to do their bit. To assume you’re immunized is naïve. There’s highly likely to be great pressure on agencies that do generate revenue to put it elsewhere.”

But Godici was insistent that one of provisions in the current bill that is most beneficial to the PTO—language giving the agency the authority to adjust its fees to reflect its costs—would be offset if fee diversion were still possible.

“It just doesn’t make sense,” he said, arguing that with such an approach the PTO would be asking patent applicants to pay more as the cost of its services increase, while at the same time it would be allowing diversion of the very fees it needs to cover the additional costs. The bills “should couple fee setting with the end of fee diversion,” he said.

Dudas said the PTO’s fee concerns involve the need for management certainty, saying that each year the office must make budget projections of anticipated patent processing activity, and it’s important to know that funding for the resources required to handle that activity will be available.

**Prohibition Against Search, Examination Outsourcing.** A third area of considerable concern to the former PTO leaders, was this language in S. 515 that they feared could prevent the PTO from outsourcing search and examination functions: “To the extent consistent with United States obligations under international agreements, examination and search duties for the grant of a United States patent are sovereign functions which shall be performed within the United States by United States citizens who are employees of the United States Government.”

Although that provision does not explicitly prohibit worksharing with other patent offices around the world, any limitation on such international collaboration would be contrary to the PTO’s recent endorsement of such initiatives (77 PTCJ 225, 1/2/09). Godici said the PTO “is and should be heading in a direction of worksharing to share the burden of search and examination with other offices.”

Another potential problem with any statutory limitations on overseas outsourcing of examination and search duties is that it could result in increased costs to applicants who wish to file abroad. The PTO recently claimed that the average cost of a third-party prepared report and opinion (\$2,074) for Patent Cooperation Treaty applications is less than its internal equivalent (\$2,392) (77 PTCJ 71, 11/21/08).

Godici maintained that “the search function can be done more efficiently within the PTO.” Still, he recognized that, if restrictions in S. 515 do, in fact, eliminate the option to outsource PCT processing, “it’s going to bring a significant workload back into the PTO.”

Lehman again put the issue in a broader context, noting that reducing outsourcing has become an important issue for the Democratic party in the recent elections, and that President Obama raised the issue often during his presidential campaign. “It’s not surprising there’s a pull back on outside contracting” as a consequence, he said, adding “Whether or not that’s a nice thing for the PTO, they’re caught in it.”

**Reexamination and Post-Grant Review.** The newly-introduced bills’ provisions on inter partes reexamination and post-grant review of issued patents pick from the differing treatment of those subjects in last year’s House and Senate measures. S. 515 adopts the House’s approach, featuring a one-year window for post-grant opposition followed by expanded reexamination options, as opposed to the Senate’s prior provision for a

second window for opposition after a party has been notified it is infringing.

While the one-year window may have significant impact on resource requirements at the PTO, none of the former PTO executives read anything else into the current bills' choice of that approach for post-grant opposition. In fact, at a Dec. 11 forum sponsored by the Computing Technology Industry Association (77 PTCJ 182, 12/19/08), Dickinson suggested that the patent review system could be improved if reexaminations were initially handled by the administrative patent judges of the Board of Patent Appeals and Interferences, rather than by the examining corps—an approach reflected in both of the current bills.

Dudas said that the past and current bills' approach to patent oppositions generally reflect “a sense that Congress wants to look to the PTO for its expertise in challenging patents.” When asked about comments by Chief Judge Paul R. Michel of the U.S. Court of Appeals for the Federal Circuit questioning whether the PTO is prepared to handle the additional workload (77 PTCJ 333, 2/6/09; 77 PTCJ 152, 12/12/08), Dudas said the judge was likely expecting that post-grant review would be handled by examiners, instead of the BPAI.

“I'm not skeptical of the ability” of the PTO to do the additional work, but how the processes work and interrelate will be very important, he added.

The Senate's adoption of the one-year window from last year's House bill also could mean a significant increase in inter partes reexamination procedures, Crowne said, since it means the elimination of “troublesome language” from 35 U.S.C. § 315, providing for estoppel “on any ground which the third-party requester raised *or could have raised* during the inter partes reexamination proceedings.” Under the current legislation, the italicized phrase would be deleted, taking away a

reason not to seek reexamination first before litigating in federal courts.

Dickinson also said that the elimination of interference proceedings in the BPAI under the first-inventor-to-file priority system proposed under both last year's and this year's bills would free up the board to handle an additional reexamination workload. But even if the board's resources are stretched under the new system, Dickinson said he has “enormous respect for the capacity and capabilities” of PTO personnel to meet that challenge. Still, Dickinson conditioned that optimism on the continued non-diversion of patent fees, noting that any additional resources needed for new PTO functions could be lost if the agency cannot hold on to the fees that it collects from users.

**In Summary.** “We've got the finest patent system in the world and it's a system worth perfecting,” Dudas said, adding: “How you perfect that is going to take a lot of discussion and negotiation.” He said that it was possible the legislators will find the right answer this year, “but I never predict legislative outcomes.”

Lehman, summing up his assessment of the current patent reform legislation, discounted the notion that those proposals generally take aim at the PTO: “The bottom line is not that the Congress is unhappy with the PTO. Quite the contrary, I think the Judiciary Committees are very supportive of the PTO. The problem is that they are rightfully concerned about the way the PTO has been run in recent years and are undoubtedly sending signals that they want this to change. And, that is the challenge for the Obama Administration.”

BY TONY DUTRA

*Full text of the Senate version of bill, S. 515, at <http://pub.bna.com/ptcj/PatentReform090303.htm>*