

Provision Of Reform Bill Will Triple Cost Of Patents

Wednesday, Feb 20, 2008 --- As the Patent Reform Act of 2007 is being debated in the Senate, one provision of the bill has attracted scant attention but would impose a major burden on future patent seekers. Section 11 of the draft Senate Report on S. 1145 authorizes the U.S. Patent & Trademark Office to mandate that all patent applications be filed together with a search report and patentability analysis.

So-called “applicant quality submissions” would essentially transfer the PTO’s search function from patent examiners to patent applicants and will dramatically increase the legal fees associated with filing a patent application.

The submission of a similar “examination support document” (ESD) is currently done on a voluntary basis in special cases where an applicant chooses to pursue accelerated examination.

Section 11 of the bill, however, would make the submission of a search report and analysis mandatory in essentially all cases, but would include no countervailing guarantee of faster examination. The only exemption from this requirement would be for the truly small inventor (defined as a “micro-entity”).

The exemption thus would not protect start-up companies or universities, who will face increased costs during patent prosecution and increased enforceability challenges during litigation.

Increased Prosecution Cost

The immediate impact of Section 11 will be a substantial increase in the cost of preparing a patent application due to the mandatory search report and patentability analysis.

The median cost to conduct a prior art search is \$2,000-\$3,500 for mid- to large-size law firms. (AIPLA Report of the Economic Survey 2007, at I-82)

More onerous than the search, however, is the patentability analysis, which if at all like the ESDs required for accelerated examination would require the applicant to point out where every claim limitation is disclosed in the prior art and to explain how every claim is patentable.

This analysis resembles a full-blown validity/invalidity opinion, with a median cost of \$12,250-\$20,000 charged by those same law firms. (Id., at 1-83) Thus, the total cost of the search and analysis would be \$14,250-\$23,500.

Given that the preparation and filing of a patent application alone (without search and analysis) has a median cost of \$6,600-\$15,000 depending on the technology and firm size, (Id., at I-78), the additional search and analysis required under Section 11 of S. 1145 would nearly triple the cost of preparing and filing a patent application.

In other words, the cost of preparing and filing a patent application will increase from about \$6,600-\$15,000 to about \$20,850-\$38,500 and would price many start-ups and universities out of seeking U.S. patent protection altogether.

Inequitable Conduct Allegations

Even if an applicant does submit the required documents under Section 11 and obtains a valid patent, the effect of those documents is likely to lead to a higher rate of allegation by infringers that some defect in those documents renders the patent unenforceable due to inequitable conduct.

Inequitable conduct is a defense in litigation that is frequently raised but rarely proved. A comprehensive study of all reported patent decisions in the past two years (2005 and 2006) shows that inequitable conduct was adjudicated more often than obviousness: 95 total versus 93 total. (Patstats.org, University of Houston Law Center, available at patstats.org/Patstats2.html)

Of those 95 total inequitable conduct decisions, the study showed that the infringer lost over 73% of the time, thus indicating that allegations of inequitable conduct are often meritless and needlessly raise the cost of litigation.

If Section 11 is to require all applicants to submit their own factual findings and legal conclusions, then these documents will provide new grounds for inequitable conduct allegations. Courts could then expect to see inequitable conduct become the number one defense in patent litigation.

A Better Way

Congress should maintain the current system under which the submission of a search report and patentability analysis is voluntary. The incentive for applicants to do so under the current system is the promise of accelerated examination.

As an alternative to mandatory submissions under Section 11, Congress could authorize the PTO to charge an examination fee within 2-4 years from the initial filing date (as is done in Europe, Japan, Korea, etc.).

Thus, start-ups and universities who have not licensed their patent application within those 2-4 years can avoid paying the examination fee by letting their application go abandoned.

The examination fee could be used by the PTO to hire an outside search firm rather than relying on each applicant's own search under Section 11, thus ensuring that the quality of the searches is consistent for all patent applications.

These outsourced searches could supplement the PTO examiners' own searches and thereby reduce the PTO's costs and patent application pendency.

Similarly, applicants would benefit from avoiding both the \$18,000 patentability analysis and the increased allegations of inequitable conduct, since the search would be performed by the PTO or its vendor instead of the applicant.

The public also would benefit from more inventions being dedicated to the public and from a lower PTO operating cost with searches being paid mostly by applicants. Transitioning to such a scheme would not be difficult, given that the PTO already outsources its search function for patent applications under the Patent Cooperation Treaty. (Press Release, USPTO.)

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