

**VALUING INTELLECTUAL
PROPERTY ASSETS**

**AN ISSUE-BY-ISSUE ANALYSIS OF
PATENT APPLICATION APPEALS**

**NEW I.P. LAWSUITS –
RFCEXPRESS.COM**

Intellectual Property Today™

www.iptoday.com

I. P. Today, 381 W. Northwest Hwy., Palatine, IL 60067

A Publication of Omega Communications

April, 2009

\$12.00

Volume 16, No. 4

HOW PRESIDENT OBAMA CAN RESTORE OUR PATENT SYSTEM

*BY ROBERT W. FIESELER OF
McANDREWS, HELD & MALLOY, LTD.*



How President Obama Can Restore Our Patent System

ROBERT W. FIESELER OF McANDREWS, HELD & MALLOY, LTD.

Robert Fieseler is an attorney in the Chicago firm of McAndrews, Held & Malloy, Ltd., where he works with clients to develop and execute value-oriented IP protection strategies.

President Obama entered office having inherited a patent system that many feel is broken and getting worse. Fortunately, the new administration has opportunities to fix some immediate problems with the current patent system while establishing a vision and direction for longer term reforms.

Dealing with the worldwide economic crisis has understandably diverted the president's attention from instituting measures to reform the current patent system. But as a candidate, his technology plan recognized the importance of a reliable patent system to promote our nation's economic health, stating on his Web site at the time: "A system that produces timely, high-quality patents is essential for global competitiveness in the 21st century. By improving predictability and clarity in our patent system, we will help foster an environment that encourages innovation. Giving the Patent and Trademark Office (PTO) the resources to improve patent quality and opening up the patent process to citizen review will reduce the uncertainty and wasteful litigation that is currently a significant drag on innovation. As president, Barack Obama will ensure that our patent laws protect legitimate rights while not stifling innovation and collaboration."

EXECUTIVE APPOINTMENTS

The new administration has yet to make appointments to the key policy and decision-making positions affecting intellectual property. The principal positions affecting IP generally and patents in particular are the Secretary of Commerce, whose appointment has been among the last to round out the President's cabinet, and the Under Secretary of Commerce for Intellectual Property and director of the PTO. The PTO's customer community is seeking the appointment of a Director with a strong legal background in IP along with

organizational management and leadership skills to run an operation with more than 9,000 employees, high attrition rates, a \$2 billion annual budget and a current backlog of 1.2 million patent applications, of which more than 770,000 await a first action. The new director also needs a track record in negotiating union contracts, since most of the PTO's employees are represented by unions.

Equally important will be the appointment of an IP enforcement coordinator, the so-called IP czar, a new position within the executive office of the president. The IP czar will direct efforts among the departments of Commerce, Justice, Homeland Security and State, as well as the U.S. trade representative to coordinate government-wide anti-piracy and anti-counterfeiting enforcement.

Secondary appointments include the deputy director of the PTO, the patent commissioner, and the trademark commissioner. Under President George W. Bush, the deputy director was the administration's liaison with Congress in the drafting and passage of patent reform legislation. The patent commissioner oversees the day-to-day operations of the PTO in receiving and processing more than 500,000 new patent filings per year, supervising the examinations of over 425,000 patent applications and issuing over 180,000 patents annually. As with the director, the patent commissioner should have considerable experience in patent prosecution, preferably in the private sector and registered to practice before the PTO, an appreciation for how patent quality affects downstream infringement litigation, strong legal skills and a proven track record of managing a large and complex organization.

FRONT-END ALIGNMENT

The area in which the new administration can act with highest probability of near-term success is in overhauling the business practices of the PTO, the front end of the patent system. The throughput of patent applications in the PTO needs to improve drastically and better patent quality metrics are needed. The table at the bottom of this page illustrates the deterioration of that throughput over the past 20 years.

None of this should be taken as blanket condemnation of the management and decision-making skills of prior PTO directors and commissioners. More than anything else, the PTO's throughput problems are due to the proliferation of new patent filings, which have outpaced the PTO's ability to recruit, train and retain competent examiners to handle the escalating workload.

Against this baseline, there is a general consensus developing in the patent and business communities that operational improvements will come about by first (a) improving the timeliness of examiner actions, (b) reforming the patent examiner production system, (c) improving the processes used to recruit, train and retain examiners, and (d) permitting applicants to defer examination.

Stemming the decline in the timeliness of examiner actions should be the new PTO director's top priority. A two-year delay in receiving a first patentability determination is intolerable, especially when decisions about how aggressively to file the application in foreign countries have to be made after only one year. An average pendency of almost three years before a final decision on the application means that the technology being patented could be obsolete by the time the patent issues. It is unrealistic to expect pendencies to return any time soon to the one-year levels enjoyed in the 1980s and 1990s, but the trend cannot be allowed to worsen.

Reforming the examiner production system will mean departing from a 40-year-old

	Agency Budget (millions)	Patent Examiners	New Applications Filed	Total Backlog	Average Pendency to First Action (months)	Average Pendency (months)
2008	\$1,915	5,960	464,000	751,000	26	32
2003	\$1,193	3,060	355,000	675,000	18	27
1998	\$567	2,590	240,000	481,000	13	24
1993	\$471	2,050	190,000	307,000	8	20
1988	\$144	1,540	148,000	268,000	8	20

system that allocates credits, or points, for only some of the tasks involved in examining a patent application. More points means greater compensation. Currently, examiners receive one point for conducting a prior art search and writing a first action, and a second point for disposing of the application, either by allowing or final rejection, with adjustments made for the complexity of the technology involved. The point system creates disincentives for examiners to devote time to an application once the second point has been earned, instead forcing applicants to file continuing applications to receive further attention from the examiner. Such continuing applications remain in the PTO's backlog, but the examiner can easily earn another two points when work on the application resumes – work that could have been done on another application in the backlog. Examiners also earn easy points when handling an application first filed under the Patent Cooperation Treaty, where a prior art search and initial patentability determination have already been made. Reducing the credit for work done on U.S. counterparts of PCT applications would incentivize examiners to take up new applications more quickly. Still, any change in the production system would be subject to negotiation with the examiners' union.

Over the past five years, the PTO has been recruiting and deploying large numbers of new examiners to handle the burgeoning backlog of patent applications. But with 600 experienced examiners leaving the PTO for every 1,000 new hires, the crisis in retention needs to be resolved and fast. Rethinking the current production system will help, since many examiners are frustrated with chasing points and being given too little credit when complex technology is involved. Programs to lift morale and job satisfaction – like encouraging interactions between examiners and applicants, initiating mentoring programs with senior and retired examiners and implementing examiners' suggestions for improvement – would stem the attrition.

Perhaps most helpful of all for recruitment, training and retention of examiners would be to establish regional PTO facilities. Right now, all 6,000 examiners operate out of the PTO's headquarters in Alexandria, Va., where the cost of living is high and opportunities to interact with technology developers in various industries are limited. Federal agencies overseeing tech-

nology development, like the Department of Energy, have successfully operated out of regional offices nearer to their customer base for years. The PTO permits examiners to telecommute, but regional offices would open up opportunities to recruit into the examining corps technical specialists who have retired or been down-sized from their jobs in industry.

Allowing applicants to defer examination, perhaps up to three years, should also relieve the backlog. Deferred examination systems exist in Europe, Japan and other countries, and result in a review of fewer applications. This is because, when faced with the need to pay examination fees, applicants will drop applications for which the commercial prospects have faded. This will also allow the PTO to concentrate its search and examination efforts on only those applications that are likely to cover technology of competitive importance. Meanwhile, each application will be published and the interested public will be on notice of the applicant's possible claims. Critics of deferred examination point to the effect that uncertainty during the deferral period will have on competition in the technology involved. But with average pendencies to first action at 26 months and growing, and total pendencies approaching almost three years anyway, removing applications from the backlog can only help.

BENCH PLAYERS

Since its creation in 1982, appointments to the U.S. Court of Appeals for the Federal Circuit have not been as politicized as appointments to other appellate circuits. But the need for competent judicial talent will become greater with controversial patent reform legislation likely to be enacted in the upcoming Congressional session. Moreover, the U.S. Supreme Court has taken and decided an unprecedented five patent cases in the last two years. In each case, the Federal Circuit was reversed and the ruling went against the patent owner. Most of the cases admonished the Federal Circuit to adhere to standard principles of appellate review rather than craft special rules for patent cases, as in *eBay Inc. v. MercExchange, L.L.C.* on injunctions, and *KSR v. Teleflex* on the obviousness standard. Since the Supreme Court grants reviews in less than 3 percent of the cases it is requested to hear, its recent rulings are

a clear indication to the Federal Circuit that its precedents need to change.

Of the 12 circuit judges on the Federal Circuit, eight will become eligible for retirement or senior status in the next two years. President Obama will therefore have a rare opportunity to shape a court whose decisions will affect the viability of patents into the next decades.

Vacancies on the Federal Circuit will also provide an opportunity to enhance the diversity of the court's membership. Up to now, a district court has never been elevated to the Federal Circuit. Neither have any experienced trial lawyers. Appointees with deeper and more diverse legal backgrounds would further the Supreme Court's desire to see the Federal Circuit return to a more traditional appellate decision-making role.

LEGISLATIVE INITIATIVES

Patent reform legislation has now been introduced in both the House and the Senate. The Patent Reform Act of 2009 essentially mirrors the legislation that was debated extensively during the 110th Congress and passed by the House, but was held up in the Senate. The Senate Judiciary Committee is expected to re-introduce the legislation early in the 111th Congress, but opponents argue that recent decisions by the U.S. Supreme Court and the Federal Circuit have instituted many of the reforms addressed in the legislation.

Recently, Chief Judge Michel of the Federal Circuit posited that the litigation problems to be addressed in the legislation have largely been solved by the courts: higher standards on obviousness, less routine injunctions, higher standards for finding willfulness and enhanced damages, and more restrictive eligibility for patenting business methods. Michel suggested that the biggest challenges remain at the front end, in the PTO, where poor-quality patents should be rejected in the first place. A relatively small number of patent infringement suits are filed every year, 3,000 annually from the more than one million patents now in force. Ninety percent of those suits will be abandoned or settled. Of the remaining 300 not disposed of by the parties voluntarily, two-thirds will never go to trial but will be adjudicated by summary judgment in accordance with the Federal Circuit's ruling in *Markman v. Westview Instruments, Inc.* Of the 100 per year actually tried, only about 30 per year will

be reversed or remanded for a new trial. With such a small number of patent cases being overturned each year, the solution to the problem of poor-quality patents being asserted against innocent manufacturers lies not in substantive patent law revisions but in reforming the rules of civil litigation that allow non-infringers to be dragged into court in the first place.



To be sure, there are beneficial aspects of the patent reform legislation before Congress that the new administration should support: basing patent grants on filing dates rather than hard-to-prove actual invention dates (a so-called first-to-file system); allowing applications to be filed by the employer rather than only by the individual inventor; allowing third parties to submit prior art to the PTO for consideration and inclusion in the examination record of a patent application; repealing provisions requiring that Federal Circuit judges reside within 50 miles of the court, thus opening opportunities to potential appointees who live outside the Washington, D.C., area; and removing requirements that the PTO have advance authority from a congressional appropriation act to spend the fees it collects.

Two troublesome aspects remain in the legislation, however. The first involves instituting a post-grant review process to supposedly get a faster, better and cheaper review of challenged patents in the PTO rather than in the courts. Experience with existing PTO reexamination procedures, which take years and consider only certain types of evidence, raises doubts about the PTO's ability to handle more complicated post-grant review proceedings any better. The PTO is already overwhelmed by an application backlog, making it unrealistic to expect that contested post-grant proceedings will be handled any more quickly, accurately and cheaply. Moreover, the discovery system necessary for post-grant review proceedings in the PTO will further burden and complicate an existing system that cannot find enough examiners to handle its present workload or enough administrative law judges to handle the appeals already on its docket.

The other troublesome aspect of the proposed legislation is the limitation of damages recoverable in court once infringement is proven. Critics of the current system complain that damages are wildly excessive, but judicial standards are already in place to prevent the excesses. A long line

IPB PATENTATLAS™

Find similar art automatically using query-by-example accompanied by extensive graphics


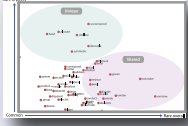



Ranking	Record type	Publication No.	Name of invention	USPC	Assignee	Similarity
8	A1	2005-000294	Transferring user input through multidimensional images into three-dimensional scene	36419 G09-400000	MICROSOFT CORP	056
9	A1	2005-007774	Method and system for displaying multiple aspect ratios of a viewport	71578 G06-400000	GALLERYPLAYER INC	35.2
10	B1	—	FINANCED MANE EDITING THROUGH AN OBJECT BUILDING VIEWPORT	36619 G06-401500	INTERNATIONAL BUSINESS MACHINES CORP	30.7
11	A	—	Reduced viewport for graphics display	36623 G06-401500	ORASS VALLEY GROUP INC	30.6

<http://atlas.ipb-corporation.com>

IPB PATENTATLAS™

- Fully automated system finds lexically similar patents quickly
- Assists keyword and class-based searching
- Rapid competitive analysis with assignee and technology breakdown graphs

Ranking	Record type	Publication No.	Name of invention	USPC	Assignee	Similarity
8	A1	2005-000294	Transferring user input through multidimensional images into three-dimensional scene	36419 G09-400000	MICROSOFT CORP	056
9	A1	2005-007774	Method and system for displaying multiple aspect ratios of a viewport	71578 G06-400000	GALLERYPLAYER INC	35.2
10	B1	—	FINANCED MANE EDITING THROUGH AN OBJECT BUILDING VIEWPORT	36619 G06-401500	INTERNATIONAL BUSINESS MACHINES CORP	30.7
11	A	—	Reduced viewport for graphics display	36623 G06-401500	ORASS VALLEY GROUP INC	30.6

<http://atlas.ipb-corporation.com>

of damages decisions already implements those proposed reforms, so that the patent owner is compensated only for the contribution over the prior art. Moreover, judges can and have reduced damages awards thought to be excessive. In *Alcatel-Lucent v. Microsoft*, which critics used to press their case for damages reforms, the trial judge overturned a jury's \$1.5 billion damages award against Microsoft, finding the jury improperly calculated damages using the value of the entire computer as the royalty base. The Federal Circuit affirmed.

STAY SIMPLE

In turbulent times, simple strategies are best. Those calling for major patent system reforms aim to extend those reforms across all three governmental branches. The new administration must resist becoming drawn into the vortex of systemic patent reform and instead focus on first appointing a capable PTO director who can solve the immediate problem of PTO throughput by reforming the patent examiner production system;

improving recruitment, training and retention of examiners by establishing regional PTO operations; and permitting applicants to defer examination. The administration's approach to Federal Circuit appointments should also start out simply: Select experienced district court judges and trial lawyers who will carry out the Supreme Court's desire to see a return to more traditional appellate decision-making and the accompanying stability in the law. Finally, the new administration should support the simplification of patent reform legislation carried over from the last Congress by forgoing trial-like, post-grant proceedings in the PTO and redundant measures to limit patent infringement damages.

Never before has an administration entered into office with such openness among stakeholders to bold and innovative solutions for fixing a broken patent system. By all indications, President Obama appears up to the task. **IPT**