
Reengineering the Patent Examination Process: Two Suggestions

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INTRODUCTION: DOING THE RIGHT THINGS, NOT JUST DOING THINGS RIGHT

Mr. Secretary,¹ in San Jose two weeks ago [*at the first two days of hearings on software-related patents*] you mentioned several times your focus on “the customers” of the Patent and Trademark Office (hereinafter PTO). We are all aware as well of the Clinton Administration’s commitment to reinventing government. It sounds as if you are familiar with the concept of “reengineering” that has been much discussed recently.²

The PTO has made notable progress in improving the quality of examinations of patent applications. But the challenge faced by the Office is a broader one. The PTO should be concerned with *doing the right things* in today’s high-technology world, not just with “doing things right”—as that might have been defined years or decades or even centuries ago.

One of the first steps, of course, is to figure out just who the customers are, and what it is that *they* want. In broad terms, the PTO’s customers are the people who have to participate in patent enforcement. By that I mean not just litigants, judges, jurors, and attorneys; I include companies doing license negotiations, or design-around work, or deciding whether they can safely compete with a patent owner.

I offer two suggestions about things the PTO can do for those customers. These suggestions are a little off the beaten track. Some aspects might work, some might need fine-tuning, and some might prove to be impracticable.

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1 Assistant Secretary of Commerce and Commissioner of Patents and Trademarks Bruce Lehman.

2 See generally, e.g., MICHAEL HAMMER & JAMES CHAMPY, REENGINEERING THE CORPORATION: A MANIFESTO FOR BUSINESS REVOLUTION (1993).

BACKGROUND: POTENTIAL LESSONS FROM THE SECURITIES WORLD

In some notable respects, the PTO's work is very similar to that of the Securities and Exchange Commission (SEC). That is not surprising, because a company does similar things when it applies for a patent and when it issues securities:

- In each case the company is asking "the public," broadly speaking, to give it an asset for use in its business. In each case the company is saying to the public, in effect, "let's make a deal";
- In each case part of the price levied by the public is an offering document that sets out a certain level of disclosure, i.e., a patent application or a securities prospectus;
- In each case a government agency—the PTO or the SEC—is charged with providing at least some assurance that the public gets what it pays for.

The U.S. securities markets are widely regarded as the best in the world. The SEC may well have some lessons to offer. If we look for potential lessons, it becomes immediately apparent that the PTO and the SEC take dramatically different approaches to their work and to their respective uses of administrative resources.

No "One Size Fits All" Philosophy at the SEC

The SEC does not treat every securities offering in the same way. This is in contrast to the PTO's practice of providing the same general type of examination to every single patent application that is filed.

The more stringent securities "registration" proceedings conducted by the SEC are designed for offerings with the greatest potential dollar value to the issuer *and* with the greatest potential market impact—i.e., public offerings. Most issuers hold off on public-offering registration proceedings, and instead do low-end financings using various exemptions from registration, until it is more clearly advantageous to incur the associated costs.

For example, under Regulation A as recently amended by the SEC,³ a would-be issuer of securities can elect to incur lower costs in cash, time, and trouble by going through a "qualification" proceeding, as opposed to a full-blown "registration" proceeding. Or, an issuer can skip even that

³ See generally 54 Fed. Reg. 36442 (1992) (publishing final text of amendments to Regulation A, 17 C.F.R. §§ 230.251 *et seq.*, to provide wider opportunities for small businesses to raise capital in "qualified" offerings as opposed to "registered" offerings).

proceeding by doing a private placement that meets the requirements to be exempt from registration.

In any case, such an issuer must be willing to accept the trade-off of receiving a lower-value asset, in a limited offering that has less of a potential impact on the capital markets. In particular, the issuer must accept and comply with a number of restrictions on the dollar amount of capital it can raise, the amount of solicitation it can engage in, the number and types of investors it can accept, and so forth.

As every venture capitalist and most small businesses know, it can make a great deal of sense for a company to accept these trade-offs. Every year, many, many companies do so; they postpone doing a full-blown public offering until the time is ripe.

Only Selective Merit Review by the SEC

A related point: The SEC is very selective in how it uses its investigation and examination resources. This is in contrast to the PTO's policy of giving every patent application a full-blown substantive examination, regardless of the application's potential impact on the public.

As I understand it, the SEC does not even try to engage in "merit review" of individual securities offerings. If a problem comes up and an enforcement proceeding might be necessary, *then* the SEC weighs in—i.e., when an investigation and examination are likely to have the most public benefit. Where individual securities offerings are concerned, the SEC tries to get the most bang for its regulatory buck by prescribing, in advance:

- disclosure *content* requirements, which set out detailed categories of information required for various kinds of businesses and various types of offerings;
- disclosure *format* requirements for different kinds of offering documents to help the SEC staff and other readers assimilate the information quickly; and
- disclosure *certification* requirements, e.g., the requirement that financial statements be certified or at least reviewed by independent auditors.

The SEC's examination of securities offering documents is normally confined to determining that the documents appear to comply with the applicable disclosure requirements. I'm told by my securities-lawyer friends that the SEC staff can get fairly picky about that. Even so, proposed securities registrations proceed with what we patent lawyers would regard as blinding speed.

It is encouraging that the PTO is already starting to do some things like this. The Office already requires patent applicants in certain fields to include some standardized technological information, in standardized disclosure formats, that are appropriate to the field of art in question. We see examples of this in the regulations governing nucleotide and amino acid sequence disclosures.⁴ The Office clearly recognizes that the same concept might be viable in other art units as well, as indicated by some of the specific disclosure-related questions set out in the Federal Register notice of these hearings.

Perhaps the PTO should now take another leaf from the SEC's book—and stop trying to give the same level of expensive scrutiny to every single one of the thousands of patent applications that are filed each year.

SUGGESTION 1: CREATE A CONVERTIBLE “LOW END” PATENT (CLEP)

The Office should create one or more forms of convertible “low end patents” that would allow companies to accept some trade-offs and thereby postpone doing a full-blown examination proceeding. The Office could experiment with notice-and-comment rulemaking to create a patent that:

1. can be obtained without a complete substantive examination proceeding, much like the petit patents and registration patents that can be obtained in some other countries such as Germany, and also like provisional protection under the European Patent Convention, *but also*:
2. is later convertible into a traditional patent through a complete examination, akin to a reissue proceeding, to offset some of the perceived disadvantages of petit patents.

The convertibility feature is another borrowing from the securities world.⁵ For example, in many securities offerings the buyers purchase bonds, preferred stock, or common stock. As a sweetener, they also get warrants that can be converted into common stock.

Trade-Offs: Possible Characteristics of CLEPs

We can be fairly imaginative about the kinds of convertible low-end patents that could be tried. Such a patent might include some or all of the following trade-offs as checks and balances:

⁴ See generally BIOTECHNOLOGY INVENTION DISCLOSURES, 37 C.F.R. subpart G (1993).

⁵ The convertibility feature of a low-end patent would not be the first thing that the patent system had borrowed from the securities laws: The definition of “material information” used in Rule 56 (prior to recent amendments to that rule) was adapted from the definition used in the securities laws. See generally 48 Fed. Reg. 5593 (1977).

1. *Rapid Limited Examination:* A convertible low-end patent might be granted quickly, with comparatively little “merit review” by the PTO—perhaps on the basis of a satisfactory independent search report and possibly an analysis of references by the applicant, as in the present procedures for petitioning for accelerated examination.⁶ (In such an arrangement it might be a good idea to give independent search firms and patent attorneys some kind of explicit quasi-official immunity from third-party liability claims arising from alleged deficiencies in their work. Most search reports and analyses would probably include warnings against third-party reliance in any event.)

2. *Burden of Proof of Patentability:* Because a convertible low-end patent would receive only a limited examination by the PTO, the patent owner might be required to assume the burden of proof of patentability in any infringement litigation and to waive the patent owner’s statutory right to require a challenger to prove invalidity.⁷ Such a burden of proof might be set at a reduced preponderance-of-the-evidence level (to offset the risk of *Blonder-Tongue* collateral estoppel effects if the owner is unsuccessful in carrying that burden).

Most patents are never litigated, and so the burden-of-proof issue never really materializes. Moreover, in many infringement suits the patent owner puts on as much evidence in support of patentability as possible anyway. As a result, putting the burden of proving patentability on a convertible low-end patent owner might have little practical impact.

3. *Short Term:* A convertible low-end patent might have a comparatively short term, perhaps seven to ten years.

4. *Convertibility:* A low-end patent could be convertible to a conventional patent by filing a request for formal PTO examination. The deadline for filing the request should be some date certain. The request should be subject to the existing two-year time limit for broadening reissues and associated intervening rights.⁸

The question of same-invention double patenting would need to be addressed. Under the existing statute and case law, however, the Commissioner might have authority to prescribe conditions under which a terminal disclaimer could be used to address the perceived problems of same-invention double patenting, just as terminal disclaimers can now be used in cases of obviousness-type double patenting.

⁶ See generally MPEP § 708.02, paragraph VIII.

⁷ “A patent shall be presumed valid. . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” 35 U.S.C. § 282.

⁸ See 35 U.S.C. §§ 251–252 (reissue provisions).

5. *Limits on Claim Numbers:* A low-end patent might be limited to a comparatively few claims (perhaps five or six total claims) to reduce the burden on the public of honoring the patent rights.

6. *Short-Duration Injunctions:* A low-end patent might permit only a short period of injunctive relief to give the patent owner a head start in the marketplace—say, at most a one- to three-year injunction against any particular infringer.

7. *Limitations on Damages:* A low-end patent might limit the owner's damage awards in litigation to a reasonable royalty, perhaps with various caps on the percentage or amount of royalties collectable from any given infringer or over the life of the patent (prior to factoring in any court-ordered increased damages, e.g., for willful infringement).

8. *Fee-Shifting:* To reduce the risk of unjustified patent infringement suits, a low-end patent might require the patent owner to pay the accused infringer's costs and attorney fees if the accused infringer prevails, unless the trial court finds that the interests of justice require otherwise—e.g., because the patent owner proves that it exercised due diligence in determining patentability and the likelihood of infringement prior to filing suit. That might be coupled with an additional requirement that the low-end patent owner put up a suitable bond at the beginning of an infringement action, similar to a removal bond for lawsuits removed from state court to federal court,⁹ if so ordered by the trial court.

The foregoing limitations of a low-end patent would reduce the risk that a flood of worthless low-end patents (and attendant groundless infringement suits) might overwhelm the system. Balancing those limitations would be the convertibility feature, which is likely to be particularly important in making a low-end patent acceptable to patent applicants.

One of my colleagues who practices primarily in biotech areas liked the idea. She commented that some of her clients are unsure at the time they file their patent applications whether the eventual commercial value of the invention will justify the cost. She speculated that many such clients would be delighted to accept the trade-offs outlined above, especially in view of the convertibility feature. I suspect that many other small and large businesses would feel the same way.

Experimenting with CLEPs Within the Existing Statutory Framework

The Commissioner may already be able to experiment with convertible low-end patents within the existing statutory framework, via notice-

⁹ See generally 28 U.S.C. § 1446(c) (procedures for removal, including bond requirement).

and-comment rulemaking, for applicants who wish to seek such patents. Section 131 of the 1952 patent statute¹⁰ requires that the Commissioner cause patent applications to be examined. It does not, however, appear to mandate expressly that any particular level of PTO investigation or substantive scrutiny be given to patent applications. The Commissioner thus might have the authority to promulgate regulations, at least on an experimental basis and perhaps even on a permanent basis, to:

- Create an optional, voluntary, convertible low-end variation of the existing statutory patent, by prescribing specific duties and specific limitations on rights and remedies that can be voluntarily accepted by applicants who are willing to settle for such a patent for the time being. For example, such an applicant might be required to agree to carry the burden of proof of patentability in infringement litigation and to waive any right to injunctive relief or damage awards as stated in the regulations;
- Permit an applicant who has filed a complete patent application to file a written election accepting the duties and limitations prescribed by the regulations for convertible low-end patents. Such acceptance could have the effect of a voluntary waiver of statutory rights and remedies as stated in the regulations. The written election might additionally be required to include a search report by an independent search firm, and possibly an analysis of references comparable to that required for a petition for accelerated examination;
- Provide for a limited examination of the application and written-election documents, primarily for compliance with applicable formal requirements, and for issuance of a low-end patent if those requirements are met;
- Deem the applicant's written election to constitute a continuation application,¹¹ with PTO action on the continuation application being suspended for a stated period of time;¹²
- Permit the applicant to file a request for a complete substantive examination of the continuation application to seek a conventional "high end" patent, prior to some date certain, subject to broadening reissue-type limitations, intervening rights, and any stated terminal-disclaimer requirements; and

¹⁰ "The Commissioner shall cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Commissioner shall issue a patent therefor." 35 U.S.C. § 131.

¹¹ See 35 U.S.C. § 120.

¹² Cf. Suspension of action, 37 C.F.R. § 1.103 (1993) (suspension of action by Office will be granted for good and sufficient cause and for a reasonable time specified upon petition by applicant).

- Deem the continuation application to be abandoned as of the specified date certain if a timely request for conversion to a high-end patent is not filed.

Instituting a convertible low-end patent could free up significant PTO resources. No doubt the Office could put those resources to good use. One use that comes to mind immediately is that of increasing the level of scrutiny given to patent applications that *do* get formally examined—such as those that become the subjects of infringement litigation.

There are probably many other possibilities that could be considered in this regard. For example, the experimental regulations might be able to go even further in a procedural sense: they could provide that *every* patent applicant is deemed to elect a limited examination and a low-end patent, unless a specific request for a complete substantive examination is timely filed.

Some of these possibilities might work, with or without fine-tuning, others might not. The important point is that a one-size-fits-all philosophy was abandoned long ago in the securities world. It is time to think about whether we should do the same in the patent examination system to better serve the public.

SUGGESTION 2: CONDUCT EXAMINATIONS AS ADMINISTRATIVE TRIALS

My second suggestion is that the PTO experiment with conducting its substantive patent examinations along the lines of administrative trials. That could help improve the quality and speed of examinations—especially if coupled with a limited-examination system for convertible low-end patent applications as discussed above. Equally important, it could make the workload more manageable for examiners, applicants, and their counsel.

The Problem of "File Ping-Pong" in the Present Examination System

In the present patent examination system, Office actions usually arrive on busy attorneys' desks without warning, sometimes after months or even years of inactivity. Equally-busy examiners never know when a response to an Office action might show up, or when a telephone call from an attorney might be received, during the six-month period before an application becomes abandoned.

Perhaps as a result of this state of affairs, one might wonder sometimes whether some attorneys and examiners regard the goal in patent prosecution as that of getting the file off of one's own desk and onto someone else's, instead of attempting to get the client's project finished. In any

event, it can be very difficult for attorneys and examiners to plan or schedule the work that will be needed to move an examination proceeding to a conclusion, one way or another.

The Difficulty of Getting Senior-Examiner Attention

Moreover, in many cases a comparatively inexperienced assistant examiner does the actual work of examination and of drafting the Office actions that reject or allow the claims. The assistant examiner's decisions technically are only recommendations to the primary or supervisory patent examiner (SPE), who reviews and signs all Office actions.

The SPE, however, may have a dozen or more assistant examiners to supervise and thus is usually especially busy. As a result, if a disagreement arises between an attorney and an assistant examiner, the attorney may sometimes feel as though it is difficult to get effective attention from the SPE. The feeling can be reminiscent of negotiating to buy a car: the purchaser doesn't get to talk to the sales manager who has authority to make a deal, but instead must talk to the junior sales person who shuttles back and forth to the sales manager's office.

The Contrasts Between Examination and Litigation

Lawsuits work much differently than patent examinations. If the judge is so inclined, the scheduling order means exactly what it says. Anyone who has had a case here in the famed "rocket docket" (the Eastern District of Virginia), or in federal Judge Samuel Kent's court in Galveston, Texas, can attest to that: You *will* get your pretrial work finished, you *will* be ready, and you *will* go to trial, on schedule. You get very focused on the task at hand, because that's your one shot.

Realigning the Examiners' Roles for an Administrative Trial

The PTO should try doing some patent examinations the way litigators and judges do trials. In selected patent applications—especially in art units with large numbers of assistant examiners—and perhaps eventually in every application:

1. Let the assistant examiner function as "counsel" who develops and puts on a case against patentability under the general tutelage of the SPE. An analogy that comes to mind is that of a junior prosecutor in a DA's office, trying his or her own cases under the general supervision of a more senior assistant district attorney.

2. Designate a primary examiner other than the SPE to serve as a “judge” who actually makes the decisions on patentability, instead of continuing to do (with signature authority) the very same job he or she did as an assistant examiner.
3. Put a scheduling order in place, possibly issued by the SPE, to set out a comparatively short period of time analogous to a trial schedule.
4. Get ready for trial: Exchange prior art and other evidence for or against patentability, e.g., with information disclosure statements and PCT-type search reports. Amend the claims as necessary. To the extent possible, reach agreement on allowable subject matter to reduce the issues to be tried (perhaps with SPE approval of all agreed allowances). Have each side prepare proposed findings of fact and conclusions of law on disputed issues—which is really just the same thing examiners and attorneys already do anyway in issuing Office actions and filing responses.
5. Try the case in an informal “hearing,” i.e., an interview (by phone or in person) with the primary-examiner judge. Tape-record and transcribe the hearing to get a written record. The primary examiner might be able to announce his or her decision “from the bench,” or might elect to write it up later, either way in a first (and final) Office action. Any appeal by the applicant would proceed as it does now.

Potential Advantages of Administrative Trials

In most respects, an examination would proceed about like it does now, but with better scheduling. The examination would be a lot like a Board appeal or an interference under the existing PTO procedures. Some administrative changes would be needed, such as to the examiners’ quota system (for example, it might be possible to evaluate a junior examiner’s performance in part on his or her won/lost record). A number of potential advantages would arise:

- The quality of many examinations would likely go up, because more senior and experienced examiners would actually be making patentability decisions and because everyone involved would be more focused on getting the project finished.
- Primary examiners would be freed up to do what they do best, i.e., judging the patentability of claimed inventions.
- All concerned would be better able to plan their work around known trial schedules.

- Attorneys would probably spend less *total* time on prosecution of particular applications—but would spend it more effectively—thus reducing the overall cost to clients.
- Assistant examiners would have a new incentive to achieve primary-examiner status, over and above the opportunity to keep on doing the same thing they have already been doing;
- Attorneys would have more opportunity for meaningful interaction on the merits with a senior examiner, i.e., the “judge;”
- SPEs would be freed from the responsibility of actually allowing or rejecting claims, and thus could spend more time coaching the assistant examiners, suggesting directions for prior art searching, and other “team building” functions;
- Many examiners and attorneys would probably find their work to be more interesting and challenging.

It is difficult to predict what impact such changes might have on the PTO’s application “throughput.” I strongly suspect that throughput would not suffer—especially if the some of the above recommendations about convertible low-end patents are adopted—and that it might even be improved. Even if throughput did drop somewhat, the potential improvements in quality, and the attendant benefits to the “customers” in patent enforcement and licensing, might be well worth the trade-off.

A friend of mine in a large in-house patent department said that a lot of old-time patent lawyers *like* a leisurely practice, and thus would be nervous about an administrative-trial process of this kind. That is a valid concern, but not the driving one.

CONCLUSION

The two suggestions discussed above may need fine-tuning. They should be fairly easy to try out in low-risk experiments, however. Unless some compelling reason dictates otherwise, the Office should give them a try. If they work, great. If they don’t work, then move on and try something else.

Mr. Secretary, many patent practitioners are delighted that the PTO is working so hard on the examination process. You have a wonderful opportunity to help improve the role of the Office in “promot[ing] the progress of science and useful arts.” Thank you for the chance to participate.