

N O R T H W E S T E R N
JOURNAL OF TECHNOLOGY
AND
INTELLECTUAL PROPERTY

Panel on *Tafas v. Dudas*, Patent Rules Changes and Patent Reform

Matthew Sag, Sean Seymore, & Chris Singer



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¶1 MS. KALEMARIS: Thanks again, everyone, for being here. The United States Patent System is constantly evolving. Recently, patent reform bills have been considered by the United States Congress. Although no law has been passed, it's likely only a matter of time before changes are enacted. The Patent Office attempted to unilaterally modify the rules regarding continuation patents and number of claims in a patent, but a district court ruling found that the Patent Office did not have this power.

¶2 Dr. Singer will discuss the topic, The *Tafas v. Dudas* decision and the effects the proposed changes would have on their practice. Professors Seymore and Sag will add viewpoints from outside the practicing legal community.

¶3 Professor Matthew Sag is a professor of law at DePaul University, College of Law, in Chicago. Professor Sag was a visiting professor at Northwestern University School of Law from 2004 to 2006, a visiting assistant professor at the University of Virginia School of Law in 2008.

¶4 Prior to his academic career, Matthew Sag practiced as an intellectual property attorney in the United Kingdom with Arnold & Porter and in Silicon Valley, California, with Skadden Arps. Professor Sag earned his law degree with honors from the Australian National University and clerked for Justice Paul Finn of the Federal Court of Australia.

¶5 Professor Sag's research includes the law and economics of intellectual property, and his recent publications include the *California Law Review* and the *Northwestern Law Review*.

¶6 Professor Sean Seymore joined Washington and Lee as an assistant professor of law in 2008. Professor Seymore's research focuses on how patent law should evolve in response to advances in science and how the intersection of law and science is critical to the formation of public policy.

¶7 Prior to joining Washington and Lee, Professor Seymore was a visiting assistant professor at Northwestern University School of Law, and before that an associate in the patent practice group and Foley Hoag LLP, in Boston. Before attending law school, he was a chemistry professor.

¶8 Dr. Chris Singer focuses his practice primarily on patent preparation and prosecution in the biotechnology, chemical, and pharmaceutical arts in the U.S. as well as in foreign countries. Dr. Singer has experience counseling clients in the areas of patentability analyses and the rendering of opinions concerning patent validity, infringement, and freedom to operate.

¶9 So I'll turn it over to you guys.

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¶10 PROFESSOR SAG: All right. Well, I am Professor Matthew Sag. It's my great pleasure to be here today, and I want to thank the students of Northwestern for inviting me and inviting my colleagues here. We are here on this panel to talk about patent reform and a particular recent decision of the Eastern District of Virginia relating to the capacity of the USPTO to engage in the patent reform process.

¶11 The PTO's recent rule changes—which we will discuss some of the details of a little later on—may well have exceeded their statutory authority. That is, in fact, a decision that we are still waiting for from the Federal Circuit, but in light of the district court's opinion and my reading of the oral argument, I think that we can be reasonably confident that the Federal Circuit is going to uphold the district court, which granted an injunction against the PTO and did not allow them to implement an entire slate of fairly radical changes to the practice of patent prosecution in this country.

¶12 The question that I would like to ask to frame this discussion as we go forward here is: Assuming the decision stands, what does this portend for patent reform? Courts and Congress have been active in this area. Congress has attempted to introduce patent reform legislation in 2005, 2006, and 2007 and now just two days ago. So far none of this legislation has passed.

¶13 In the meantime, courts have been extraordinarily active in this area. The Supreme Court has restated the standard of nonobviousness. The Federal Circuit has entirely changed the law on willful infringement. The Supreme Court has radically changed the law on granting injunctions in the eBay case. There are probably some other major changes that I'm missing, as well.

¶14 My observation is that all of these changes are pulling at very large and unsubtle levers that only directly affect 1 or 2 percent of patents. Courts only see a very, very small minority of patents, those that become commercially important, those that become subject to disputes, narrowed further by those that actually proceed to litigation.

¶15 I don't think that any of these large levers that the courts have been pulling lately are a total solution to the problems that we face in the patent system today, and I can sum up the problems in one very large number. There are about a million pending applications in the system today. No one thinks that that is a useful or productive state of affairs.

¶16 Furthermore, in addition to the backlog of patents at the Patent Office, we also have the widespread perception, which I personally believe is true, that patents don't tell you very much about the scope of a legal entitlement. That if you are examining patents as a type of property—compare them to the title deed for your house—patents are a miserable failure. The metes and bounds of the inventor's monopoly right, as defined in the patent, are often hopelessly unclear.

¶17 Now, the reasons for this are varied and complicated: some of these reasons have to do with the number of patent claims; the practice of continuation; etc. What we have seen in the PTO's recent rulemaking is an attempt to deal both with the issue of backlog, but also to try and simplify patents to encourage—possibly with too large a stick—but to encourage claimants to file 25 claims or less and to discourage the practice of continuation.

¶18 I am sympathetic to what the Patent Office has tried to achieve here, however, I think that there are real questions about whether they have got the policy formulation correct. Working on the assumption that the Patent Office has indeed exceeded its

authority, this raises a really important question. Can we afford to have reform of the patent system entrusted purely to the courts who don't see the whole picture and Congress, which has so far proved to be incapable of acting in this area?

¶19 I actually think that it's important for the PTO to be an active participant in reforming the system, that they play such a large part in administering, without necessarily endorsing these particular rule changes. So that is the general framework about patent reform and also why this case is so important. It's not just important because of the rules that are being subject to the injunction. It's important because it determines who gets to create the rules in the future and whether we are going to see any patent reform below the tip of the iceberg.

¶20 So with those comments, Dr. Singer.

¶21 DR. SINGER: Thank you. I approach this problem from a different viewpoint than Professor Sag and Professor Seymore do. As a patent prosecutor, I deal every day with the rules of the Patent Office, good and bad. So I approach the proposed rule changes, which are now back -- they were first announced to be final back in August of 2007 and then they were preliminarily enjoined on Halloween of 2007 and then permanently enjoined in the Eastern District decision, oh, yeah, April Fool's Day. How could I forget? April 1, 2008.

¶22 Really, the overarching -- the real question that I thought that that decision had to address was whether the PTO has the authority to make substantive rule changes to patent law or whether their authority extends only to merely procedural ways of how they implement their examination of applications. And to get kind of into the actual issue of that case a little bit more, the primary issue that was argued on behalf of the plaintiffs, which is a lone inventor named Dr. Tafas, and the mega-pharmaceutical corporation of Glaxo Smith Kline was whether 35 USC Section 2B2 authorized them, the Patent Office, to do anything other than pass procedural rule changes with respect to patent rules. Whether the Patent Office is actually interpreting the law or implementing the law and trying to define or redefine the scope and the extent of how an applicant can file a continuation application, which is currently covered by 35 USC Section 120, which has language that suggests Congress never intended to put any type of limit on the number of continuation applications an applicant can file.

¶23 There was also an issue which I should probably leave to the professors here, since they are probably a little bit more familiar with this type of statutory deference given to administrative agencies under Chevron. The Patent Office argues that it does have -- it is supposed to be afforded such deference. The plaintiffs in that case argue, obviously, that they don't. And so in coming to it's decision as the court did, Judge Cacheris did determine essentially -- he made his decision essentially based on the facts that he found the rules to be substantively changed and not merely procedural in effect, and that goes really largely to the type of changes that they made.

¶24 They defined rule changes in terms of applications that would be filed on or after November 1st, 2007, and prior to, and a lot of these changes to the rules, particularly continuations, whether you can file more than two in any given application family, or a request for continued examination, which was going to be limited to a single in any given application family. The application of that rule change was going to be retroactive as well as proactive, so applications had been filed under a completely different set of

understandings regarding how the rules would be implemented would be substantively changed by these rule changes.

¶25 Similarly, Professor Sag mentioned that, you know, this rule relating to limiting claims to five independent claims or 25 total claims could also help, I guess, provide a little bit more certainty to a patent and the rights defined by that patent. Again, that rule change, in effect, was going to also be applied retroactively for applications that had been filed prior to -- to the public -- to the publication of the proposed final rule changes.

¶26 There are other difficulties with the rules that have a real substantive effect as far as economic impact and the potential limiting of an applicant's right to claim inventions that have been disclosed in patent applications.

¶27 So, you know, I would say that I wholeheartedly agree with the injunction. When I do think about it, I hope and pray that the Federal Circuit will affirm this decision and uphold it and, perhaps, we can take a step back and try to figure out how to address this problem of the backlog at the Patent Office and how to maybe address this undercurrent of not being able to -- or I guess to better define the potential scope of an applicant -- an applicant's invention as defined in patent claims.

¶28 PROFESSOR SEYMORE: Well, I'm Sean Seymore. It's good to be back at Northwestern.

¶29 So in this -- in the *Tafas* case, a group of law professors -- well, two law professors wrote a brief in support of the PTO, which of course we hope that the Federal Circuit has read, but you never know. But maybe it's not a surprise, but I'm essentially in agreement with the law professors' take on this case.

¶30 I'm going to just make a few points and then hopefully open up the discussion a little bit more. So really the way that I see this, there are really two questions. The first question is, does the PTO have the authority to promulgate these new rules? And the second question is, are these proposed rules sound public policy?

¶31 And to provide a quick answer: I think at least the law professors that signed on to this amicus brief agree that the PTO has the authority to promulgate these rules. Now, whether or not it's sound public policy, the brief doesn't really speak to that, so that is something that we can discuss.

¶32 I guess what I'm going to do now is, I'm going to take one step back now and explain -- I'll maybe take one or two minutes to explain the basic administrative law principles in play here and then I'll talk about this whole substantive procedural boundary. So basically up until 1999, the Federal Circuit and its predecessor court, the CCPA basically gave no deference to the PTO. That was just the way it was.

¶33 So there was this case called *Dickinson v. Zurko* in which the Supreme Court said administrative law principles apply to judicial review of PTO rulemaking. And so, basically, the courts have to afford the PTO some deference, so that is the bottom line there.

¶34 And the typical test that is used is the so-called Chevron test, which basically states that the courts will defer to reasonable agency interpretations of law if the statute at issue is silent or if Congress has not spoken on the issue. According to Chevron, there is a two-step test.

¶35 The first step is whether the statute is ambiguous or if there is a gap that Congress intended the agency to fill. And the second step is, if so, whether the agency's

interpretation of the statute is reasonable or permissible, and if it is, then the courts will defer. So that is basically the underlying administrative law principle.

¶36 So the primary issue and contention in the *Tafas* case is -- as I see it, is whether the proposed rules are procedural or substantive. Basically, the PTO has the authority under 35 USC 2b2 to promulgate procedural rules but not substantive rules. Obviously, there's a disagreement between the parties as to whether or not the proposed rule changes are substantive or procedural.

¶37 So, basically, the PTO's position is that the rules are procedural. As the PTO states, the rules fall under its statutory authority to govern the conduct of its proceedings or proceedings before it. The question is, who is right, the PTO or Dr. *Tafas*, and I think the PTO is right. So the rules at issue are unquestionably directed at the control of PTO procedures.

¶38 So under what circumstances can applicants file continuation applications? What info must or should applicants disclose along with those applications that are particularly large or complex? So certainly at the district court level, the trial court judge -- well, of course, he said that he disagreed with that. The law professors' take on this is, that although the line between procedure and substance is not always clear cut, the mere fact that a procedural rule can have a substantive impact, it does not make a procedural rule a substantive rule. Or, otherwise, no rules would be treated as procedural. They would all be treated as substantive.

¶39 Again, I'll reiterate that point. Just because a procedural rule has a substantive impact does not make that rule substantive, so certainly at the trial court stage, the judge found or determined that the proposed rules were a drastic departure from what had taken place before in the Patent Office. And based on that fact, it wasn't hard for the judge to conclude that the rules were, in fact, substantive.

¶40 Law professors would argue that this is not true. Why is that? First, the PTO already uses various rules and doctrines to control continuation applications, including prosecution laches. Second, as far as RCEs, they are basically too new for there to be a so-called drastic departure, and the trial court judge agreed with that.

¶41 Third, there is already Federal Circuit precedent. I guess the *Bodeesi* (phonetic) case, which basically upheld the PTO's decision to reject a patent application that had been the subject of multiple continuations on the grounds that the PTO -- and I'm quoting, "Has inherent authority to govern procedure before it and that authority allows it to set reasonable deadlines and requirements for the prosecution of applications."

¶42 So the bottom line is that the professors who signed onto the brief do not believe that this is a drastic departure. We also believe the rules are procedural and not substantive.

¶43 PROFESSOR SAG: I would offer a counterpoint to Professor Seymore's view there. There is an interesting debate about whether procedural versus substantive is the right test to apply here, but there is another important question that I think that is effectively a trump card.

¶44 So just briefly on the procedural versus substance, the *Chevron* test which governs deference to agencies as well as having a first step, looking for a gap or an ambiguity, and a second step assessing the reasonableness of the agency's interpretation, it is also commonly described as having a step zero. For those of you who are fans of Isaac Asimov will recognize the concept of a Zeroth Law.

¶45 Step Zero is to look for circumstances that *Chevron* applies to. *Chevron* only applies where Congress has not spoken, where there is silence, and there is an argument here that Congress has adopted the procedural versus substantive dichotomy from the *Bogeesi* case because the current section under dispute, 2(b)(2), was enacted after that case and mirrors the language of the section that was being interpreted in the *Bogeesi* case, which off the top of my head, I think, was Section 6. So there is a question here as to whether we should give the PTO deference in deciding what the scope of that delegation is or whether Congress has effectively endorsed the Federal Circuit's view that there is a difference between substance and procedure.

¶46 So that is one issue, and I think it's an important issue. As I said, there is a much more important issue. The capacity of the PTO clearly does not extend to rule changes, whether they are procedural or substance, that conflict with the statute.

¶47 Here is, I think, where the PTO really has problems. If you look at the language of Section 120, which controls continuations, it provides that "such applications shall have the benefit of the priority date of the initial application." It doesn't seem to me to be within the scope of that statute to have a mechanical rule that does not allow for continuations.

¶48 Now, on the policy grounds, I'm much less ambivalent. I think that there are very strong reasons why we should change Section 120, why continuations or unlimited continuations are an enormous problem, but it just does not look to me like the PTO has the authority to do that.

¶49 One solution to this case is for Congress to give the PTO much more flexibility. The PTO doesn't have the flexibility to set its own fees. That's correct, isn't it?

¶50 DR. SINGER: I know that's it in the new reform, as well.

¶51 PROFESSOR SAG: So that is coming in the new patent reform legislation. I think the PTO should have ways of discouraging practices that it sees are not to the benefit of the public in the patent system, but I think what is really problematic with their regulations is there is a fairly mechanical rule and that seems to just contradict the language of the statute.

¶52 So even if I were to agree with Professor Seymore and the other law professors on the ADA point and *Chevron*, I still think that the PTO has a significant problem.

¶53 PROFESSOR SEYMORE: Well, okay. So good for old Section 120.

¶54 I mean, I'm certainly no expert in statutory interpretation, and I guess there are several principles that you should use when you attempt to interpret the statute, but I guess I would say that the statute is essentially silent with respect to the number of continuations that are allowed. It just doesn't speak to that point.

¶55 So I would say, based on that, the statute itself doesn't prevent the PTO from limiting the number of continuations, and it certainly, in the words of Mark Lemley, does not compel the PTO to give an applicant unlimited bites at the apple. So I guess it's just the statute does not really speak to the issue.

¶56 Since it doesn't, then we'll afford the PTO some deference in promulgating rules that are basically related to it. I mean, that is my simple answer there. The statute is basically silent with respect to that.

¶57 DR. SINGER: I guess I'll chime in. You know, I guess there have been a couple of issues that have been brought up, whether -- first of all, I think that we can all concede there is a problem with application backlog, and the purpose of these rules overtly, I

think, was to eliminate a large amount of the backlog by limiting the number of continuations or applications an applicant can file.

¶58 I don't think this type of substantive rule change is really even the fairest way to go about it. It is probably effective in that, in fact, it would start sharecropping the entirety of the backlog down to a couple trees here and there, I suppose.

¶59 The argument that there's a lack of certainty and you should only get so many bites at the apple, I can understand the basis for that argument, but from a practical day-to-day standpoint, there's no guarantee that you are going to get a good or fair examination at the Patent Office with your patent application.

¶60 You can get a very inexperienced examiner who can cause a lot of procedural problems for you, forcing you to file continuations, forcing you to file requests for continued examination, when, in fact, you probably have a legitimate argument for your claims being patentable. And, again, the idea of an unlimited number of bites at the apple kind of cuts against the idea that a patent is, in fact, a limited monopoly, for 20 years from filing. In certain technologies, the horizon for any type of invention is three to five years, which again underscores a lot of the problem with the backlog.

¶61 For the arts that I typically practice in, like biotech and pharmaceuticals, you know, those type of companies are not concerned about a three- to five-year timeline. They are concerned about 20 years from now. And, typically, those types of industries require -- they are extremely complicated, so the examination tends to be extremely complicated and drawn out.

¶62 And, you know, I think -- going again to the Congressional intent as well, I think that the provision in the prior patent reform packages that highlighted -- or one of the sections related to giving the Patent Office greater authority to change substantive -- or to enact substantive rulemaking regarding applications. And I think it was mentioned by Judge Cacheris, in fact, that that was kind of an implied statement that the Patent Office, in fact, didn't have that type of authority. So any type of rule change that was substantively affecting an applicant's rights was improper.

¶63 Again, we will probably talk about it a little bit later, but that section regarding broadening the Patent Office's substantive rulemaking authority is no longer there. Really, I think the types of answers or solutions to the problems that are being brought up here really are best addressed by looking in -- looking inside the Patent Office and how it conducts its business, providing -- you know, providing a new system for examination through -- well, a better system for examination through retention of examiners, revising the way examiners are evaluated on how they examine applications, and really focusing more on the type of ruling making and changes in policy that it should really be concerned about and providing quality application examinations, retaining its talented people and not concerning itself with trying to affect the actual rights of people applying for patents.

¶64 And, you know, this -- there were a bunch of rules last year that the Patent Office tried to get through. There was one regarding changes regarding how the patent appeals would be conducted, regarding the information disclosure statement requirements, and regarding how to -- the term of art, Markush claims, which is basically a practice used in primarily chemical and pharmaceutical applications for drafting a claim that covers a broad genus of compounds in the case of chemicals, through a particular type of language that is used called the Markush claim. And all of those rules were stalled at OMB, which

is the office that reviews and determines whether the rulemaking was proper and properly done and truly in the interest of public benefit, rather than in the interest of the agency itself. And while those rules were stopped at various points in time, they are still all stalled and -- I guess we are all waiting, at least, to hear what the next versions are going to be like.

¶65 But, again, there was a lot of gnashing of teeth regarding the particular rule changes. It would have been extremely burdensome for any type of applicant that filed multiple applications with a large number of claims. It similarly would have been really burdensome on small entities because a lot of these rules were complicated. They would have required a lot of expense through essentially required -- applicant required searches of the prior art, having to disclose all of that information, and characterizing the invention with respect to that prior art, and, also, having to identify applications that are related to each other in order to ensure the applicant was not trying to avoid the 2 plus 1 rule. It was no doubt going to cost applicants a lot of money via their attorneys, and their attorneys would have lost a lot of hair, I think.

¶66 PROFESSOR SEYMORE: I'll agree with Matt and Chris that maybe -- I mean, as far as whether or not these proposed rule changes are sound public policy, I think that's an open question. Certainly, I have some reservations about a few.

¶67 So, for example, the 5/25 rule, 5 independent claims or 25 total claims. You had mentioned Markush claims. You can have one Markush claim that covers a trillion compounds. So it doesn't matter if you only have five independent claims. One claim can tie up the examiner for three weeks, so I think having a 5/25 rule and not having the Markush rule in tandem with it does not really make a lot of sense to me.

¶68 But, yeah, so I'll agree that maybe this -- these proposed rule changes are not necessarily sound public policy. I'll go back to something that Matt said: What role should the PTO itself play in patent reform? So, yes, the courts can and have stepped in to -- whenever the court steps in, certainly in recent times, the Supreme Court, I see it as maybe setting the Federal Circuit back on the right track, so to speak. So that is fine.

¶69 Certainly up until ten years ago, the Federal Circuit afforded the PTO no deference. So now, finally, within the past ten years, the PTO actually has the ability to basically have some sort of say-so as to the direction that -- well, at least procedures in its office, procedures within the Patent Office should go, I guess. But, anyway, that brings up this broader question. What role should the PTO play in patent reform? And I don't know. I mean, maybe a very limited role, but, I mean, you can make the argument that the examiners, the directors, so on and so forth, they are in the office day to day. They have this backlog of a million applications and examiners leaving left and right, so I guess that they feel like they want to do something to try to improve the situation. In that sense, I guess I can applaud them for the effort.

¶70 Certainly, the law professors would say that, you know, as long as the rule changes are procedural, the PTO certainly has the authority to do so. But, again, I guess it just points back to Matt's original statement. What role should the PTO play in patent reform?

¶71 PROFESSOR SAG: So should we open it up to questions?

¶72 PROFESSOR SEYMORE: Sure.

¶73 PROFESSOR SAG: The gentleman in the middle.

¶74 AUDIENCE MEMBER: I have a sort of a really broad question. The words “patent reform” can take on a number of meanings, right? To pharmaceutical companies it could mean strengthening, IP rights, it could mean brother groups, it could mean making more clear metes and bounds of what the patentee’s rights are. For the PTO, it could be streamlining the process.

¶75 So what is it that you see from the legislation and what do you see the PTO trying to do through these certain procedural devices? What kinds of real problems do you see this trying to solve?

¶76 PROFESSOR SAG: So the basic problem with the patent system that we have at the moment is that it’s fairly clear that it’s working for pharmaceutical companies and for chemical companies, but the economic evidence—which is limited—suggests that it’s not actually working for any other sector of the economy.

¶77 In other words, software companies would be better off on net if there were no patents. That is at least what a recent book called *Patent Failure* by Mike Meurer at Boston University indicates, and he and his co-author, Jim Bessen, have done a lot of economic analysis on this issue. You can quibble with some of it and question some of it. What is clear, if you look at the Congressional activity, is that pharmaceutical companies are extremely nervous about patent reform. But you have the eBays and Googles and somebody said Microsofts of this world, who are very keen about it because they feel a lot of the costs—and this is partly because patents are different in different industries. There is actually a lot more certainty to a chemical compound patent. Chemists all speak the same language. There is some real definiteness in the claims.

¶78 Because if you look at the claims in the RIM litigation involving the Blackberry device, I believe—I could be mixing my cases here—but I believe in that case there were originally 800 claims. It’s very difficult for anyone realistically to look at that document and say that they know what it means. So that is one of the key problems here, so patent reform does mean different things to different people. That is why it has been so difficult to get through Congress, because different industries have very different views. I think that the reform that we are getting becomes narrower and narrower each version of the bill, which is why you have seen the courts step in and play such a large role.

¶79 But from my perspective, the courts only see the litigated cases. They only see the tip of the iceberg. The Patent Office should be the one driving this kind of institutional reform, and to the extent that their legislative authority needs to be supplemented, then it should.

¶80 DR. SINGER: Actually, I’ll just put my two cents into your question and disagree slightly because I feel that the Patent Office’s role as an agency is to examine patent applications. There are going to be bad patent applications that get issued simply because there are humans examining those patent applications, and there are lawyers arguing in favor for them or applicants, solo inventors. But what the Patent Office really needs to do, if the backlog is that big of a deal, is to come up with alternative types of programs. Work sharing programs with foreign patent offices. Those are being introduced more and more often now, between the U.S. Patent Office and other foreign offices.

¶81 There is talk about, perhaps, introducing a deferred examination option, where an applicant can file and file with a request to confer examination so the examiner’s burden does not fall -- it’s, at least, delayed. So there is not an ever-mounting building backlog of applications to be examined. They can be off on a sidetrack perhaps, you know,

revising accelerated examination options to make it more incentive based for an applicant because currently, as they stand now, they are pretty burdensome. And in many cases, they are not an attractive option for any applicant.

¶82 So, you know, I think that patent reform should probably be left to Congress, which is kind of a problem within itself, since Congress can't seem to agree on anything anymore. But the agency should be concerned just about examining their patent applications most effectively and with the highest quality.

¶83 AUDIENCE MEMBER: Question for the panel. You mentioned PTO may outsource the examination (inaudible).

¶84 DR. SINGER: So the question is with the idea of a work sharing program between the U.S. and a foreign Patent Office, is there a concern about the quality of the examination from a foreign office or even the rules?

¶85 AUDIENCE MEMBER: Foreign examiners examine the U.S. patent application and whether the foreign examiner, when he examines, they understand the Federal Circuit mind on the PTO and applies that principle, apply the same principles?

¶86 DR. SINGER: Let me actually clarify what I meant by that. There are particular programs now that allow for -- when I say "work sharing," that is when you file an international application, you can file that throughout many, many countries in the world.

¶87 Typically, each individual country will perform an examination on that application and determine whether or not it's patentable. One thing that these various offices have identified as a potential savings of time and effort and resources, is that if there is an applicant that has a common application or a related application in multiple offices, so in Japan, in Canada, in Europe, in the U.S., and the U.S. examiner is the first one to examine it and the claims in the other applications are substantially the same, the various foreign offices can use that examination with certain requirements met by the applicant to help expedite the prosecution on that end.

¶88 So that would be a reciprocal type of program where things that get first examined in Europe can then kind of find a fast track in the U.S. The U.S. examiner can base their examination on what was done in Europe, and if there are certain differences between what, for example, is patentable subject matter between the offices, that would have to be dealt with separately. So that would be a big problem, and it's a problem, the issue you raised.

¶89 AUDIENCE MEMBER: Reform is in the eye of the beholder clearly, but a lot of it was couched a few years ago in terms of harmonization, particularly when one was being sold, the idea of being first to file. Where do you see the justification for the United States retaining information disclosure statements and making the requirements for it much more severe when, in effect, no other Patent Office in the world requires these things? I believe even, as I recall the Australian office, which did is now abandoning them.

¶90 Why are we -- I think it's a great idea to have them as it is, but if we are doing things in the name of harmonization, why don't we cut out the IDS?

¶91 DR. SINGER: I would love to do that personally.

¶92 AUDIENCE MEMBER: What is one without the other?

¶93 DR. SINGER: Well, I think that's part of the big problem why harmonization is really not occurring. You have a lot of different ideas among the foreign offices, and as you noted, the first to file, the U.S. is pretty unique. In fact, I think it is unique, not pretty

unique, in having the first to invent rather than first to file as determining your priority date. I think we will probably be talking a little bit more about the reform that was just introduced specifically earlier this week, but there was a first to file provision in that one.

¶94 Part of the required -- I think part of the House Bill that passed last year, which also had first to file as a provision, was that Europe and Japan would have had to have a one-year grace period similar to the U.S. in order for the U.S. to agree to a first to file system. So, you know, the difficulty is trying to not affect the existing rights that an applicant has filed under in implementing a new type of -- you know, a situation like first to file.

¶95 PROFESSOR SAG: I think that there has been a lot of talk about harmonization in the past. I don't really think that harmonization is driving the agenda here. This is a domestic agenda, and the question really should be, does it make sense for us to have a first to invent rule as opposed to a first to file rule, and first to file is clearly, in many ways, much more efficient.

¶96 The problem with it is that, occasionally it would just seem very unfair. The true inventor will miss out because they lose the race to the Patent Office. That person is going to lose out in Europe, they are going to lose out in Japan, but for social and political and cultural reasons, we have a strong attachment to the first inventor in protecting his or her rights. Given the way these things are usually resolved in interferences—my understanding is that the first to file usually ends up proving that they were the first to invent—it is a game that doesn't seem worth the candle to me, but this is the way it should be addressed. It should be addressed primarily in terms of domestic, economic efficiency.

¶97 Under the TRIPS agreement, the Trade Related Aspect of Intellectual Property, we commit to a number of minimum standards on patentability and subject matter and enforcement, but there is also a very large degree of discretion and member nations are supposed to optimize the system for their own circumstances. And that is exactly what we should be doing. No other Patent Office on the earth has the backlog that we have, as far as I know. That is a real problem. It is a problem for inventors, and it's a problem for people who are one day going to be accused of infringement. I'm just not sure that harmonization is much more than a smoke screen here.

¶98 AUDIENCE MEMBER: Just a follow-up on that backlog. My understanding is that the new rules are supposed to reduce the burden on the Patent Office. There has also been, I believe, statements by the Patent Office that their filing receipts are going down due to the economy. Since the economy is not supposed to come back for another year, wouldn't that give them enough time to reduce their backlog, at least to a more manageable level?

¶99 PROFESSOR SAG: Last time I looked, their backlog was increasing by around 100,000 patents a year. So we are going to need a sustained recession to really clear that up, and I'm not sure that any of us thinks that that is really the solution here, but you are right.

Patent filings do seem to trend with the economy, but, hopefully, the economy is going to pick up way before we clear this backlog.

¶100 DR. SINGER: I think the last information I heard was something along the lines of maybe a 1 to 2 percent decrease in the number of filings since the downturn in the economy, which really, I think, the Patent Office was concerned about simply from a

revenue standpoint, losing a lot of revenue associated with application filings, therefore limiting their resources, therefore limiting their ability to keep and hire new examiners and maintain examiners.

¶101 But I think that the backlog might have a bit of a head start, so yeah.

¶102 PROFESSOR SEYMORE: I want to pick up on that a little bit. Going back to this question about patent reform and the role that the PTO should take in it, we have talked a lot about examiners and the examiner's role in the backlog and what can the PTO itself do to fix that situation. And from my limited time in practice, I can think of plenty of folks that went to the Patent Office, as examiners, with the purpose of working there for two or three years and to be cherry-picked by a law firm and come in with a nice big bonus and so on and so forth.

¶103 Not to mention that the salaries, from the last time I checked, were not very good, and I think there is a cap at GS 11 or whatever, so I'm wondering if the Patent Office should focus itself on maybe changing the incentive structure, so on and so forth. Maybe we should focus our efforts on that, rather than implementing these rules that we have been discussing. I don't know.

¶104 AUDIENCE MEMBER: Dr. Singer, if the -- as a professor advocating that the Patent Office is given the authority to reform, due to the involved reform, how do you think that that would affect your practice?

¶105 DR. SINGER: Well, it would complicate an already complicated practice. Under these types of rules, it would have been a real problem. You know, our firm, in particular, had been paying a lot of attention to how we were thinking about going about approaching November 1st, when that day -- the day that the rules were supposed to go into effect. And even from the time in late August to October 31st, we still were not sure about how we were going to handle a number of things. But there have been changes to the rules in the past, right? Before 1995, the GATT agreement, the term of patent was 17 years from the date of issue or 20 years from the date of filing, whichever is longer. Since then it's just 20 years from your date of filing.

¶106 Prior to 2000, applications weren't published, and you adjust your practice and you make the best of it and you try to recommend the best course of action for your client, which sometimes is not easy, but that is why they pay you.

¶107 AUDIENCE MEMBER: I know State Street they were saying with the huge influx of business method patents, if you came in and did some examination, then your application could be fast tracked. Going back to the incentives, that you were talking about, Professor Seymore. We do have all of these former patent examiners who are now in firms. Is there any kind of -- you can file and your firm's stuff will get fast tracked, if you do some examining yourself? Have people been talking about that?

¶108 PROFESSOR SEYMORE: Not to the best of my knowledge. Are you guys aware?

¶109 DR. SINGER: I have not heard of that. I know that I think in the past, the Patent Office has asked patent attorneys to come in and train examiners. I wonder about having an attorney examine a third-party's application may create some kind of conflict of interest potentially.

¶110 AUDIENCE MEMBER: We have had examiners come into the firm. They can't work on the same area that they are working. They know people. That is against Patent Office ethics rules besides our own.

¶111 PROFESSOR SAG: But, you know, I think there is probably a lot that the PTO can do to improve examination, improve retention, improve work flow, change the incentives for examiners, which they have been doing some work on such that examiners don't just get rewarded for rubber stamping patents, that you eventually get some credit for knocking back the ones that should be knocked back.

¶112 I'm just not sure that focusing on what examiners do is going to be enough, given the huge number of applications. We need to think about ways that change the incentives of applicants that make them write patents in a way that is less opaque or do something that contributes towards prior art searching. The problem with the PTO rules that were just introduced was they seem to have imposed a very substantial burden on applicants and, also, put them at risk of the charge of unethical conduct, which would jeopardize the entire patent for what could be very minor mistakes.

¶113 It's easy to say that we should think about changing the incentives of applicants. It's very hard to implement that in a way that doesn't have unforeseen consequences, and I think this is what we have just seen.

¶114 But I think, ultimately, this still needs to be part of the agenda. We can't just say, We are going to take these 4,000 people who probably mostly are doing a pretty good job and make them do an amazing job. There is more to change in the system than that.

¶115 AUDIENCE MEMBER: Continuing on that topic, how -- maybe I'll just ask each of your opinions on some of the proposals to open up patents before they are examined at the PTO for third-party review and suggestions of prior art and whether you think that is a decent idea. And what, if any, positive effect that would really have on the examining process and the decreasing of the backlog at the same time increasing the quality of the examination?

¶116 DR. SINGER: I think you may have read the new legislation because that is one of the proposals in it. That during prosecution, the U.S. would open up the examination or at least the opportunity to have a third party submit prior art and comments similar to the European system currently.

¶117 You know, from just reading it, it's hard to identify what would be the drawbacks - - potentially the drawbacks and the advantages. I think there is room for something like that to certainly be considered. As I said, with first to file and deferred exam, there are arguments. People get nervous when it's not well defined. That is basically what needs to be fleshed out more during the discussion in Congress, I think, with regard to the reform. But I think that that is a policy that as long as it's not abused by third parties who just don't want to see a patent ever get through examination, I think that is a potential way to certainly help an examiner and probably provide a stronger patent for the applicant as well as probably a better defined patent right.

¶118 PROFESSOR SAG: So there is one issue there and that, obviously, once the patent is published, you are giving up your trade secret rights. I have not actually looked at this section of the new legislation. I assume it's voluntary.

¶119 DR. SINGER: I think they are considering opening it up to third-party submissions during prosecution, so after it is published.

¶120 PROFESSOR SEYMORE: So in this current version of the bill, there is no mandatory 18-month publication requirement, so I guess if you still agree not to file abroad, you can still keep the application secret until the patent issues. So in that case, the file wrapper would not be open, I guess, if you decided that you would not foreign

file. So I think that is a bit frustrating. Why not have the across-the-board publication requirements?

¶121 But, again, that is not a part of either the House or Senate proposed legislation.

¶122 AUDIENCE MEMBER: I thought there was a pilot peer review program, and at one point while I was on the board one day, I looked at the website that had the information on it. It's pretty clear that no one believes in it, no one participates in it, and one of the other aspects of it is that it allows third parties who may not have any expertise whatever to make inflammatory statements, which is common on the web these days, and put it in the record of your application.

¶123 And it opens up, it seems to me, the whole process to disruptive influences because there are many opportunities to submit art now after the application is published. If that is what really is on your mind, there is plenty of opportunity to ask for re-examination, there is plenty of ways of addressing those issues. They are very rarely used because they are very rarely effective, and they are very rarely needed.

¶124 So, again, it's a question of -- generally, we have a standoff for patent legislation issues, because it's a balance of competing influences and they null each other out. To find a reasonable path for that is going to seem to be not trivial.

¶125 DR. SINGER: I think you are right.

¶126 PROFESSOR SAG: I think the peer to patent system is what you are referring to. The concept is to try and harness these sort of collective intelligence of the broader community in much the same way as Wikipedia often produces pretty good encyclopedia entries. The concern is perhaps you are not drawing from a diverse enough group of people and perhaps there is not an appropriate mechanism to filter, such that the best and most helpful comments rise to the top. I have not actually taken a look at this since it has been implemented. It seems like an intriguing idea. It seems like the kind of thing that in the internet age, we should try out. I think it's definitely a great idea doing a pilot program. That is one of the reasons that we do pilot programs, to see if they work.

¶127 Your comments don't sound encouraging. I don't have any firsthand knowledge.

¶128 AUDIENCE MEMBERS: Once patents are issued under these new rules, they are not passed and they are litigated, which is sure to happen, who would benefit more, the infringer or the defender?

¶129 DR. SINGER: If the Patent Office's rule will pass. Knock on wood, it won't. I think that there is -- well, it depends. There is a lot more opportunity, I think, under the new rules for a lot more estoppel to be on the record between the applicant and the Patent Office.

¶130 You know, litigators get to spend a lot of time with the patent and get to dissect it pretty well. I think in these new rules, there is an examination support document that would be required for any patent that had more than 25 or more than five independent claims or essentially would have had to do a complete prior art search of the entirety of the known prior art in the world, submitted the relevancy of the search results, and characterized their claimed invention in a way such that distinguished it from the prior art, which of course is essentially a statement of what your invention is.

¶131 To me that seems to -- it seems to be a lot of fodder for a litigator to attack and take on a patent that, you know, maybe isn't completely relevant to the entirety of the issue being litigated. I mean, to me it seems if the rules go through, it will be to the advantage

of entities accused of patent infringement, but that is not the question you asked. You asked about infringers.

¶132 My problem is, I don't know which of those many, many entities who are routinely accused of patent infringement are, indeed, infringers.

¶133 AUDIENCE MEMBER: Or alleged infringers.

¶134 PROFESSOR SAG: I know that if you were in-house counsel for a company like eBay, for example, that you would spend a lot of your day opening up letters claiming patent infringement or, before the Federal Circuit changed the willfulness rules, kind of subtly hinting that there might be patent infringement, trying to do so in a way that would not allow a standing for declaratory judgment.

¶135 And you would waste a lot of time satisfying yourself that those claims were truly meritless before throwing them in the trash, but, that's not the universal experience. Sometimes those claims are legitimate. Sometimes people are having their rights infringed. Part of the problem with the system at the moment is that, from my perspective, it's very difficult for a company like eBay to know on a first pass which of those letters they should take seriously and which are frivolous.

¶136 I think some of the changes in the law that we have had recently lowered the stakes in that regard. Particularly, vis-a-vis injunctions, but it still does not address the fundamental issue that it's really hard to look at one of these letters or the patent that belongs with it without doing an extraordinary amount of work to figure out whether there is even any chance that you might be infringing. And that, to me, seems like a significant problem.

¶137 PROFESSOR SEYMORE: I guess I agree with Chris and Matt, but on the other hand, thinking about the rules as a whole, I guess you could make the argument that if we limit the number of continuations, if we go with the 5/25 claiming, so on and so forth, you could imagine that applicants would be a little bit more thoughtful at the front end about when to patent, what to patent, what to claim, so on and so forth, so you could actually end up with maybe narrower patents or inventions that are better claims so on and so forth. So maybe there would be some sort of trickle down effect on the quality of the document itself. I think that is coverable, but I agree with what Chris and Matt said. I think they are exactly right.

¶138 PROFESSOR SAG: Well, the other issue there is, if we radically change the claiming practices, does that affect the doctrine of equivalents? Do we think about what was a reasonably foreseeable ambiguity at the time of the drafting differently if we recognize that the person drafting the application was practically limited to 25 claims?

¶139 The patent system has so many different interrelated moving parts, that it's very difficult to say in isolation what the effect of any one change will be.

¶140 AUDIENCE MEMBER: Question to the panel. Given that there is a new administration that will be coming in, when do you see taking a stand, when we -- the previous administration or will they take this injunction as an opportunity to perhaps make some changes on their own end?

¶141 DR. SINGER: Yeah. I think if you view who President Obama has associated with in the past, you'll find a number of his past associates being the law professors that Sean was talking about, being very in favor of the change in the rules package, Mark Lemley, Artie Rye. I think there is a -- I think, by and large, this administration is

probably going to be a little more anti-patent, if you want to couch it that way, than the previous administration or than it would have been under McCain.

¶142 In fact, there is still a lot of uncertainty in what this administration is going to be. There was only a Secretary of Commerce nominated a few weeks back. There is still no director for the USPTO, which is actually a lot of the basis for people saying that patent reform should not be addressed until later. That might have some merit. I think, by and large, it might not be the most patent friendly environment that people have enjoyed.

¶143 PROFESSOR SAG: So I want to suggest there are some reasons to think that is not going to be the case.

¶144 First, if you look at issues relating to patent reform, they are connected to two very different sets of issues. One is there is the linkage to tort reform in general, which is an issue that Republicans are strongly in favor of, Democrats less so. So when these issues are couched in the language of tort reform, you actually get a lot of Republicans who are fairly sympathetic.

¶145 On the other hand, the respect for high standards of intellectual property is something very near and dear to the hearts of substantial democratic donors, including pretty much everyone in the City of Los Angeles. And if you look at who contributes to presidential campaigns, for example, you will see that the top 20 contributors in the entertainment industry are sort of the top 20 beneficiaries. I think the last time I looked at this, all but two were Democrat.

¶146 So the Clinton administration was very pro-IP. Under Clinton we had the Copyright Term Extension Act, we had the Digital Millennium Copyright Act, we had the TRIPS agreement. It's not so clear that this is going to boil down into a simple left-right issue.

¶147 You might even think of it as more a geographic issue. Are you West Coast, software and electronics, or are you East Coast, pharmaceuticals and chemistry, in which case it might depend more on committee chairmanships and things like that. I mean, I definitely agree, it's too soon to know what the administration is going to look like on this issue.

¶148 The other point I would make, because I think that to the extent that we should be looking at Obama's associates, then probably we should be looking at the law professors that he would have had more day-to-day dealings with. And I think at the University of Chicago, we might see people who are more pro-patent and more sympathetic to property rights, but that is also pretty speculative.

¶149 AUDIENCE MEMBER: If you could introduce a bill on patent reform, what would it contain?

¶150 PROFESSOR SAG: Good question.

¶151 PROFESSOR SEYMORE: Oh, boy.

¶152 DR. SINGER: What would it contain?

¶153 PROFESSOR SAG: A lot of muttering under their breath. I can tell you what my bill would have contained about three years ago. I would have liked to have seen some modification of the Federal Circuit's rigid teaching suggestion and motivation standard. I would have liked to have seen modifications to the automatic issuing of injunctions, but the court has given us that. They have addressed willfulness, I think, pretty satisfactorily. I don't think that there are any major issues left with willfulness.

¶154 What we have actually seen here is courts have actually done a lot while Congress has been unable to do anything. And, you know, I was teaching Festo not that long ago. Festo contains some very strong language of the Supreme Court, chastising the Federal Circuit for changing the rules of the game midstream and interfering with the reasonable investment-backed expectations of those people who hold patent portfolios. That seems to have gone out the window with the Federal Circuit in Seagate and the Supreme Court in several decisions seems to have thoroughly embraced reforming the patent system.

¶155 Yeah, I -- honestly, I can't give you a good answer to your question.

¶156 PROFESSOR SEYMORE: I'll add on to that. So I would allow the PTO to set its own fees and to keep all of its fees, as opposed to having to basically help the rest of the federal government. I would also, basically, I guess, amend 112, paragraph 1, to make it a question of fact as opposed to a question of law. That is getting down to the nitty-gritty, but those are two things that I would do.

¶157 DR. SINGER: I'll just throw in, since we are all going to have one suggestion. My addition would be to maybe see some type of definition for inequitable conduct. To help clarify that, I think it helped kind of -- well, it would help to clarify the inequitable conduct standard, but I think it may be important as far as having a good idea of what type of conduct is going to be acceptable.

¶158 PROFESSOR SAG: I would go maybe one step further on that and require a special pleading for inequitable conduct. You should have the highest possible pleading standards for something that is so often alleged, is really so invidious, and is so infrequently proved.

¶159 I think it's just one of the features of patent litigation that is unnecessarily expensive at the moment. It opens up huge veins of discovery that would not otherwise be relevant. While no one wants to countenance inequitable conduct when it actually occurs, but the routine unsubstantiated allegation of inequitable conduct is clearly not a good feature of the current system.

¶160 On patent fees, I will say the PTO should be able to determine its own fees. It should have the flexibility to adjust those fees, depending on the number of claims that you've filed. That might be a much more subtle way of achieving the same ends that they are trying to implement here.

¶161 I don't agree that the PTO should automatically get to keep all the money it makes. The PTO should set the optimal fee. Now, obviously, there is going to be some debate about what that is. To say that is magically the same cost as running the PTO, I think, is just fanciful. It's quite arguable that patent fees should be much higher than they are, in which case the PTO may need less money, or if the number of applications really drops, they may need more money. I think fee diversion is an important political point for the practicing community, I know, that I just don't see that there is any economic justification for it. The optimal fee is whatever it is.

¶162 The patent examination system is a public good. It's like education and roads and hospitals. If it can cover costs, terrific. If not, then it's something we should consider paying more for.

¶163 AUDIENCE MEMBER: Focusing only on limitations for RCEs and (inaudible) what effects do you see on the upserve processes, if the appeal rules are to be left the same or to change? If they are left the same, do you see a flood of appeals and its effects on the Federal Circuit and district courts?

¶164 DR. SINGER: I think that was thought -- that that would largely be the consequence of those rules, that every application is now so precious to an applicant, that they can't let it go. In every case they get a final rejection, they would have to take it to the board of appeals, which is no quick process in itself currently. So if you deluge the board with even more appeals, you have got a new backlog to deal with, I guess.

¶165 And I can't -- I think the recent changes to the appeals rules were really more formatting -- and I should not comment because I can't recall offhand, but the one that I remember most clearly was they required you to use 14 point font in your brief. I guess that limited the amount of words that you could use, at least. And I think they required a whole bunch of factual -- that's right. That is coming back to me now.

¶166 I think that was certainly the foreseeable consequence of those limitations.

¶167 MR. EWERDT: Any other questions?

¶168 (No response.)

¶169 Well, let's thank our panelists. They did a great job.

¶170 (Applause.)

¶171 At this time, we will be taking a short break. Coffee, soda, cookies, brownies, other goodies. Same room as lunch and then we will be meeting back here at 4:00 o'clock.

¶172 (WHEREUPON, a recess was had.)