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August 27, 2002

### USPTO 21st Century Strategic Plan

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The United States Patent & Trademark Office (USPTO) released a report on June 3, 2002 entitled "The 21st Century Strategic Plan." The 388-page Plan outlines the USPTO's major goals and initiatives for the next five to ten years. The full text is available on the USPTO's web site at <http://www.uspto.gov/web/offices/com/strat2001/>. This Advisory summarizes the key points of that Plan. We note at the outset that the USPTO can not automatically initiate this Plan. Several of the specific proposals in the Plan would require amendments to the Patent Act by Congress, changes in the USPTO's Rules, and/or allocation of funds in the federal budget – none of which has yet been secured. In view of the political considerations involved, we expect that the USPTO will implement few of the proposed changes exactly as they appear in the Plan today. Rather, we expect the Plan to be a starting point for negotiating changes. Trade groups such as the American Intellectual Property Law Association (AIPLA), the Intellectual Property Owners Association (IPO), American Bar Association (ABA) and the International Trademark Association (INTA) have already begun to comment on the Strategic Plan; selected commentaries from those groups are summarized in this Advisory. Future Advisories will keep you apprised of important changes in this Plan.

#### Contents of this Advisory

I. Goals of the Strategic Plan	2
II. Major Initiatives	3
A. New Examination Procedures	3
B. Electronic Processing (TEAM)	5
III. Four Track System	5
A. Track 1	5
B. Track 2	6
C. Track 3	6
D. Track 4	7
IV. Selected Criticisms of the Strategic Plan	7
A. Fee Diversion	8
B. American Intellectual Property Law Association (AIPLA)	8
C. Intellectual Property Owners Association (IPO)	9
D. American Bar Association (ABA)	9
E. International Trademark Association (INTA)	10
V. Favorable Comments	10
VI. Conclusion	10

## **I. Goals of the Strategic Plan**

The USPTO's broadest goals include improving quality, reducing inefficiency, and adapting to trends in the intellectual property (IP) marketplace. These goals are introduced in the first section of the Strategic Plan and later fleshed out with 57 specific proposals. In typical bureaucratic style, the Plan divides the proposals into three categories according to their intended effect on the agency: Agility, Capability, and Productivity. A fourth category, Legislation, contains proposals for amendments to the Patent Act and the Lanham Act (which governs trademarks and unfair competition) that will be required to implement the other proposals.

The Plan articulates goals for improving the quality of patent examination in vague terms. For example, despite recognizing the crucial importance of "patent quality" to the USPTO and the community it serves, the Plan never defines that term and proposes only two methods for evaluating characteristics generally associated with it. The first method is to track changes in the rate of patent applications filed over time – which the USPTO theorizes will reflect market demand for patents, which, in turn, will reflect changes patent quality over time. The second method involves subjective evaluation of patents in the newly proposed post-grant review (PGR) process. The Plan never considers such metrics as lifetime economic value (measured with hindsight), estimated present economic value at the time of application, rates of surviving judicial scrutiny, or surveys of satisfaction of inventors, patent owners, or the public. On the other hand, the Plan does establish specific goals for enhancing the quality of patent examiners. For current examiners, the USPTO will encourage continuing education to remain abreast of developments in the law and examiners' fields of technological expertise. New examiners will face more thorough scrutiny as job applicants and a mandatory comprehensive training in patent law upon hiring. The USPTO also intends to raise examiner salaries to attract higher quality job applicants and increase the number of examiners by 950.

The Plan foresees boosting efficiency in three basic ways: end-to-end electronic processing of applications, reducing patent examiners' activities beyond their core competency of claim examination, and reducing the average duration of application pendency. The potential efficiencies of a well-implemented strategy for electronic processing (in time and pecuniary cost savings) are obvious. The next two efficiency goals are intertwined in the most striking feature of the entire Plan: a new four-track system for patent examination. The USPTO intends to replace its current examination procedure with four different procedures – from which the applicant may choose whichever is most desirable or least expensive route for each application. These proposals are discussed in more detail in later sections of this Advisory.

The third major goal of the Plan is adapting to trends in the IP marketplace, which the USPTO identifies as responsible for three fundamental changes in patent applications in recent years. First, more prior art exists in languages other than English. Second, the numbers of applications and claims per application are growing. In a July 18, 2002 hearing in front of the U.S. House of Representatives Judiciary Subcommittee on the Courts, the Internet and Intellectual Property, U.S. Patent and Trademark Office (USPTO) Director James E. Rogan noted that annual workload has been growing at a rate of 20-30 percent and a total of 340,000 new patent applications will be received this year. Changes in application procedures will address both these developments. The USPTO intends to further control the growth in applications and claims per application by changing its fee structure in a way that materially alters the incentives that applicants face. The agency proposes to (a) increase application fees across the board, (b) attach different basic fees to the different examination tracks, and (c) charge exponentially higher fees for applications where the number of claims exceeds twenty or the number of independent claims exceeds three. The final fundamental change in patent applications over time is that the technology they cover has grown increasingly complex. The enhanced training of patent examiners will equip them to address increasingly complex technology more effectively, and the reduced case load due to the hiring of 950 new examiners will permit them to spend more time per application.

## **II. Major Initiatives**

### **A. New Examination Procedures**

Under the current system, the USPTO examines all patent applications in the same way. Upon receiving the application, the examiner conducts his own initial search for prior art (the "primary search") and considers the prior art submitted by the applicant, then takes the first office action. All applicants pay identical fees, no matter how many claims they submit or how much time the examiner devotes to the application. The time lapse between submission of the application and the grant of a patent ("pendency") depends largely on the individual examiner's case load. The Plan argues that prior art searching consumes as much as 30% of examiners' time and inefficiently diverts their attention away from their core competency of examination of patent claims. Applicants and other specialists, the Plan reasons, are best equipped to conduct primary searches because they are most familiar with both the technology involved and the non-patent literature (NPL). Accordingly, the proposed system of four examination tracks will give the some control to applicant over the fee it pays, the duration of pendency, and the identity of the person who does the primary search. Examiners will rely on primary search reports submitted by (1) the applicant, (2) an international searching authority (ISA), (3) a foreign patent office, or (4) a certified search service (CSS). Search reports must be submitted in a standardized format called the International-Style Search Report (ISSR). Where initial examination based on the primary search and prior art disclosed by the applicant suggest that a claim is patentable, the examiner will conduct a less extensive supplemental search before take the first office action. After the first office action, each track looks similar to the current, one-track

system.

The major feature of the new system is that examiners will no longer conduct primary searches. Where an examination track calls for the USPTO to do a primary search, the agency will competitively outsource this work to one or more CSS. Another track will require the applicant to enter into a private contract with a CSS to provide the primary search to the USPTO. The Plan calls for certifying each CSS based on criteria that the USPTO has not yet developed – but which will likely resemble the criteria designated in the Patent Cooperation Treaty (PCT) for International Searching Authorities (ISAs). These criteria include the number and type of technical employees, the training provided to searchers, proficiency in claim interpretation, capacity for speed and volume searching, experience of management, competency to conduct good searches, and institutional infrastructure such as in-house databases of technical data and publications. The USPTO will formally revisit each CSS's qualifications during periodic certification renewals, and it will review a statistically significant sample of ISSRs each year to ensure quality.

The requirements for reporting prior art in the primary search will reflect the USPTO's plans for quality assurance. The ISSR is a summary report of the prior art, containing simple characterizations of relevant prior art and specifically referencing each claim for which each piece of prior art is relevant. Reasoning that inventors are best equipped to determine what expertise will be needed for primary searches, the USPTO anticipates boutique CSSs marketing expertise in different fields. The USPTO considers private sector specialists to be more familiar than patent examiners with new technologies and also more familiar with non-patent literature (NPL) within their fields of expertise. Thus, the USPTO expects to realize efficiency gains from privatizing primary searching. As a summary report of prior art, the ISSR does not include the raw data gathered in a prior art search or the list of keywords and search terms used to generate the data. To ensure quality, the CSS must attach these items to each ISSR to facilitate the USPTO's ongoing review through sampling.

Finally, the new procedures will provide "post grant review" (PGR) procedures for third parties to challenge issued patents. This proposed PGR procedure will require more third party involvement than the current reexamination procedure but will still likely take less time than a judicial challenge. The European Patent Office (EPO) has a similar opposition procedure and receives challenges to approximately 6.5% of issued patents. The USPTO expects a lower challenge rate because the American IP community is not accustomed to such procedures and will therefore likely continue to favor judicial challenges – at least initially. Several European national patent offices have historically provided PGR procedures, so the European IP community was already accustomed to such mechanisms when the EPO began to provide them. The USPTO expects the number of PGRs filed to remain low through the first five years, climbing to only about 1,000 reviews in the fifth year. It plans to hire reviewers and budget funds for their activities accordingly and expressly recognizes the risk that its

estimates may be low.

Director Rogan, in his July 16 Remarks before the Judiciary Subcommittee, said that the total average costs in filing, issue and maintenance fees under this 21<sup>st</sup> Century Strategic Plan would be \$12,000, compared to the approximate \$54,000 and \$24,000 for the filing, issue and maintenance fees for the European Patent Office and Japanese Patent Office, respectively.

#### **B. Electronic Processing (TEAM)**

The Plan calls for the development of Tools for Electronic Application Management (TEAM) – end-to-end electronic processing – by the end of fiscal year 2004. The grand vision is to enable the USPTO to communicate and share information with applicants, CSSs, and foreign IP offices (especially the EPO and the Japanese Patent Office (JPO)) with low marginal expenses. The Plan foresees the Extensible Markup Language (XML) as the likely standard for electronic applications, and the USPTO will continue to accept paper applications, which it will scan and convert to text and graphics for subsequent electronic handling. The Plan does not anticipate conversion of past or currently pending applications to an electronic format. The first step in implementing TEAM is to enhance the current e-filing system, making it more robust and easier to use. Back-end systems will be developed later and added in phases until the USPTO's operations are entirely electronic. The eventual components of the system will be: an e-filing server, an e-filing client, XML authoring tools, public key infrastructure for security, examination automation support, document management software, and an electronic file wrapper on which all official actions will be recorded.

### **III. Four Track System**

The proposed four-track system will replace the current one-application-fits-all approach. By way of introduction, track four looks similar to the current application procedure (but is restricted to "micro-entities"), while the other three tracks are substantially different. In each case, the examiner will rely on a primary prior art search conducted by someone outside the USPTO. Where a track calls for a primary search by the USPTO, that work will likely be competitively outsourced to a Certified Search Service (CSS). Other sources of primary search reports will include foreign patent offices and international searching authorities (ISA), as they are defined in the Patent Cooperation Treaty (PCT). All search reports must be in a standardized format known as the international-style search report (ISSR). While the Strategic Plan explains that each track will have a different basic fee, based on the amount of work required of the USPTO, it does not state what the fees for each track will be. As a final introductory note, each track provides for post-grant review (PGR) to be filed by third parties within twelve months of the issuance of a patent or four months from notice of infringement.

#### **A. Track 1. Applicant submits ISSR from CSS**

Track one requires the applicant to contract privately with a CSS to conduct a primary search for prior art. The applicant may also choose to contract with a foreign patent office to act as the CSS if the USPTO has an appropriate bilateral agreement with that office. The search report must be submitted in ISSR format with the accompanying attachments that permit the USPTO to monitor search quality. The applicant may also elect to attach "observations" on the prior art to explain any portion of the ISSR. Observations are voluntary at first, permitting the applicant to decide whether to make the first statement on any piece of prior art or to wait for the examiner's reaction before making a statement. While observations are initially voluntary, the examiner may later require the applicant to submit observations before taking the first office action.

In the applicant-driven phase of track one, the fee and ISSR are due to the USPTO 18 months after filing of the application. After these are tendered, the USPTO-driven phase begins. If initial examination suggests that one or more claims are patentable, the examiner will conduct a supplemental prior art search – less extensive than the primary search. The Plan calls for the first office action within six months of receiving the fee and ISSR from the applicant. The applicant will then have three months for amendment, after which the Plan anticipates issuance of the patent within six months. The total pendency during the USPTO-driven phase is therefore 12-15 months. The USPTO's pendency estimate is deceptive, however, because it ignores the fact that the applicant may wait up to 18 months after filing before the USPTO-driven phase begins. Therefore, the total pendency from filing to issuance may change very little from the current system.

#### **B. Track 2. ISA Provides Search Report**

Track two requires the applicant to contract with an international searching authority (ISA) to provide a primary search report. The Plan takes this term from directly from the Patent Cooperation Treaty (PCT). The applicant may select which ISA will conduct its report; and, under some conditions (defined in the PCT); the USPTO may act as the ISA for this purpose and conduct the primary search. In such cases, the USPTO will competitively outsource this work to a private-sector CSS. The duration of the USPTO-driven phase (beginning after the fee and search report are submitted) is the same as in track one, but the applicant-driven phase may take as long as 30 months – compared to 18 months in track one.

#### **C. Track 3. Foreign IP Office Provides Positive Examination Results**

Track three requires that the applicant to have already been granted a patent in another country and may be used only if the USPTO has an appropriate bilateral agreement with that country's patent office. The USPTO will rely on the examination results and prior art found by the foreign patent office. The USPTO's examiner will only conduct a "supplemental search as appropriate and subject to supervisory approval" – in other words, rarely. The most striking feature of track three is that the USPTO's final decision will be "based

primarily" on the foreign patent office's results: the Plan describes the reliance on the foreign patent office as giving "near full faith and credit to the other IP office examination." The USPTO will examine only the claims allowed by the foreign office and the prior art that it found. Claims that were not allowed by the foreign office will be examined only for differences between American and foreign patent law – not for misinterpretation of prior art or misapplication of foreign law. To this end, the applicant will have no opportunity to submit "observations" as in track one. However, the applicant may request examination of claims rejected by the foreign patent office for an additional fee. Finally, amendments after the first office action may only narrow or limit existing claims; no new claims may be added, and no claims may be expanded.

The pendency timeline for track three is the same as in track one, where the fee and search report are due 18 months after filing. The applicant *must* request expedited examination in the foreign country to meet this schedule. If the foreign patent office will take longer than 18 months to issue the foreign patent despite expedited examination, the applicant *may* request a stay of the proceedings in the USPTO. The USPTO-driven phase (following the submission of the fee and search report) is identical to tracks one and two.

#### **D. Track 4. USPTO Provides Search (micro-entities)**

Track four closely resembles the current application procedure – but is limited to "micro-entities." The Plan leaves this term to be defined by rule after an appropriate period for public comment. Although the USPTO is formally responsible for the primary search, it will competitively outsource this work to a private-sector CSS. Despite the higher burden of work relative to the other tracks, the USPTO intends to discount the fees for track four to encourage patenting by micro-entities. Finally, track four applications will be "limited to a single invention," although it is not clear whether the number of claims will be subject to the exponential fee increases as in other tracks.

Unlike the first three tracks, track four does not have an applicant-driven phase. The fee is due 18 months after filing, and the USPTO (or the CSS it hires) will complete its primary search within 30 months from filing. After this, the pendency timeline is identical to the USPTO-driven phase in the first three tracks.

In his Remarks before the Judiciary Subcommittee, Director Rogan said that in the near future the USPTO will announce a market-driven "rocket docket" option of choosing an accelerated examination procedure with priority processing and a pendency time of no more than 12 months.

## **IV. Selected Criticisms of the Strategic Plan**

The new fee structure in the Plan is pervasively criticized. The criticisms are quite similar and so are summarized in this section without specific reference to any particular group's or individual's commentary. Following this, other specific criticisms lodged by the American Intellectual Property Law



Association (AIPLA), the Intellectual Property Owners Association (IPO) the American Bar Association (ABA) and the International Trademark Association (INTA) are summarized. All four trade groups are frequently updating their commentary on the Plan on their web sites, such as at [www.aipla.org](http://www.aipla.org); [www.ipso.org](http://www.ipso.org) [www.abanet.org](http://www.abanet.org) and [www.inta.org](http://www.inta.org). The summaries below reflect the major issues raised in those commentaries at the time of this writing.

#### **A. Fee Diversion**

All four commentaries on the new Plan deal with the new fee structure. The most forceful complaints deal with the continued diversion of fees away from the USPTO for the benefit of unrelated federal programs. This has long been considered a "hidden tax" on inventors. Significantly, the Plan rejects this criticism and calls for an *increase* in the portion of each fee that will be diverted to unrelated federal programs. Therefore, while the overall fees paid for each patent application will rise, a greater percentage of these higher fees will be diverted away from improving patent quality or the services provided by the USPTO. The other major criticism of the new fee structure is the *exponential* increase for applications with over twenty claims (or over three independent claims). One reason commonly cited for this criticism is that the exponential price structure does not reflect the USPTO's actual operating costs and therefore seems calculated to limit the number of claims regardless of the worthiness of those claims. These commentators applaud the USPTO's effort to discourage "frivolous" claims but encourage it to adopt linear, not exponential, fee increases. Linear fee increases will more accurately reflect the USPTO's operating costs.

#### **B. American Intellectual Property Law Association (AIPLA)**

The American Intellectual Property Law Association (AIPLA) identifies two important questions that the Plan fails to address: (1) whether the USPTO will have the resources to conduct a rigorous review of every patent application and (2) whether patents issued are justified in terms of utility, novelty, and invention (or whether their scope is unnecessarily broad). Indeed, with no guaranty of adequate funding and no working definition of patent quality, the USPTO seems to have ignored both these issues. The AIPLA also criticizes some specific proposals of the Plan. Essentially, the AIPLA accuses the USPTO of passing so much hot air. Pendency reduction has been promised every year for decades, and the USPTO announced in the 1980s that it would have a totally paperless office by 1990. Obviously, neither has yet occurred. As for electronic processing, the Plan's stated goal is to "initiate" a project "to prepare for electronic processing" by the end of fiscal year 2004. This appears to be bureaucratic jargonspeak for "do nothing."

Finally, the AIPLA raises two quality issues. First, it sees additional examiners as crucial to raising patent quality. While the Plan anticipates 950 new examiners, President Bush's budget reflects only 250 new examiners, and the difficulty of adding such things to the federal budget is legendary. Second, the



AIPLA laments that the Plan fails to define "patent quality." The group intends to assemble a task force to propose a working definition and specific metrics for measurement of patent quality.

### **C. Intellectual Property Owners Association (IPO)**

The Intellectual Property Owners Association (IPO) focuses harsh criticism on the four-track system. First, it notes that the fees for all four tracks will be higher than the current one-track system and asks whether the Plan's improvements in quality add sufficient value to justify these higher prices. Already, we see that the total time from filing to issuance will likely remain unchanged in the new system, although the USPTO claims a shorter pendency period because the USPTO-driven phase of each track is shorter than the current average pendency period. This criticism is especially damning when one considers that the applicant must pay additional money for primary searches (or additional application fees in foreign countries for track three). In other words, the USPTO is demanding higher prices for less work, which requires applicants to pay for additional incidental work from third parties. Second, the European Patent Office (EPO) is moving away from what it sees as an artificial distinction between "prior art searching" and "patent examination." The Plan does not offer any reasons why this system will work in the United States after failing in Europe.

Finally, the IPO fears that applicants may be accused of manipulating the application system – especially in track one, where the applicant controls the primary search process with a private contract between itself and a CSS. The Plan partially addresses this issue when it states that the applicant's (and the CSS's) good faith in reporting prior art will be presumed in the absence of clear evidence of intent to deceive the USPTO. Evidence of bad faith would include falsification of a search report or omission of any documents discovered in the search. This standard is similar to that established in 1988, in *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d U.S.P.Q. 1158 (Fed. Cir. 1988). However, the Plan fails to address the extralegal consequences of such allegations. For example, applicants may face public relations problems if improprieties are suggested, even if the USPTO considers the matter closed. The Plan makes no attempt to deal with such consequences.

### **D. American Bar Association (ABA)**

The American Bar Association (ABA) raised the same type of criticisms that the AIPLA and IPO focused on. The ABA also opposed deferred examination. They urged that the provisional patent application route is an existing and preferred alternative to deferred examination. The ABA also believes the Patent and Trademark Office should maintain overall responsibility of the searching function and should use outside contractors and/or foreign search results only as a starting point rather than a substitute for its own searches.

#### **E. International Trademark Association (INTA)**

The International Trademark Association (INTA) had only few criticisms. With regard to trademarks specifically, they were only opposed to the proposal to charge \$50 for any submission on paper of any trademark-related documents where an electronic form currently exists. While this proposal is intended to increase use of the PTO's electronic trademark filing system (which is now at about 30 percent of all filings). INTA argued that this surcharge is not warranted by either budgetary or statutory requirements. Also, the USPTO recently disclosed that it plans to significantly reduce the number of trademark examiners. INTA is leading the fight against this move.

#### **V. Favorable Comments**

The four organizations noted above made many favorable comments about this Plan. In particular, besides establishing fees to cover actual costs, the AIPLA agreed with the initiatives to ungrade the quality and training of patent examiners, to enhance the reviewable record of patent applications. The ABA was in favor of the proposals for certifying and recertifying all examiners. All four organizations were in general support of the proposals for increasing electronic processing. Other than the \$50 charge for paper submissions in the trademark area, all four organizations commented favorable on the trademark-related proposals.

#### **Conclusion**

The United States Patent & Trademark Office's 21st Century Strategic Plan proposes fundamental changes to the way the agency conducts business. All proposals are currently tentative, and any real changes will come only after public comment, consideration by Congress, and appropriations in the federal budget. Many parts of the Plan leave important questions unanswered and leave the devil in the details of implementation. This Advisory is an introduction to the issues that will likely affect you and your organization in the coming months and years. You must be aware of that changes are brewing, although we cannot know yet what they will be. We will keep you apprised of major developments in this area as they occur.

Thanks goes to our summer associate, Dan Fingerma, for his contribution to this Client alert.

This document is intended only as an informational summary and does not constitute legal advice for any specific factual situation. If you would like more information please contact Bill Simons @ 203.498.4502 or [wsimons@wiggin.com](mailto:wsimons@wiggin.com).