

What I'm out here to talk about, and also to have a conversation with all of you about, is just the dynamic time in patent law in Washington, DC and how every single possible entity in Washington, DC is very active in patent law. The Supreme Court, the Federal Circuit, Congress and the USPTO as well. And so I'd like to just share some of that with you.

The Solicitor's Office

But, before I get into that, let me just talk about what the role of the Solicitor is within the USPTO. What we do in the Solicitor's office is at the very tail end of any examination process. First the patent examiner or the trademark examining attorney on the trademark side is going to be examining your patent application or trademark application. And then after you get a final office action from that examiner you have the option to appeal to one of our two boards; the patent board and the trademark board. Should you receive an adverse decision from one of those board decisions then you can appeal that to the Federal Circuit and if you do that's where the Solicitor's Office now steps in and we'll be defending that final agency decision, that board decision in front of the Federal Circuit. Typically what that means is after you file your notice of appeal with the court, you will file a brief, we will file our responding brief, then you will get a chance to file a reply brief and then a couple months later after that, we all go down to the Federal Circuit together and have an oral argument in front of the three-judge panel. And so, essentially, that's the main role that I've had in the twelve years that I've been at the USPTO as an associate solicitor and now Solicitor.

We have about 17 lawyers, as you heard, two of them [] really specialize in just trademark law and the remainder are really specializing in the patent law but there's mixing and matching in there. And not only do we do defend board decisions we also defend the PTO in district court under the Administrative Procedure Act (APA). Sometimes a petition decision will get appealed to the district court under the APA and then once again we at the Solicitor's office will

step in and defend that petition decision. Not only that, we're also advising the agency on regulation and MPEP provisions, TMEP provisions, for legal clearance or, at the very least, advising our client on the possible risks.

Tafas

So, for example, everybody, I'm sure, is familiar with the *Tafas* litigation. That was about the claims and continuation rules package that came out a couple of years ago. And, yes, the Solicitor's office had a role. We didn't come up with that rule package, I want to make that clear. But, at the same time, we had a role in advising our client of the legal risks and also helped try to shape that rules package to make it as legally defensible as possible. And, as you know, the District Court did rule against the PTO and then there was a three-judge panel, at the Federal Circuit, that for the most part, but not completely reversed what the district court had held, not only about our rule making authority but also whether those specific rules were consistent with the Patent Act. And then, ultimately, that panel decision was vacated because the court decided to take that case en banc.

At that stage, Director Kappos had come into the agency and decided that he wasn't interested in going forward with that rules package as a way to deal with our pendency and backlog issues; he was interested in finding other ways of dealing with that. So we withdrew the rules package. And that's what happened.

The Dynamic Patent System

Now, going back to the main thrust of this talk, which is about the dynamic time in the patent system. Everybody, I'm sure, is now well aware that the Supreme Court is [] in the game when it comes to the patent system and is very interested in testing the assumptions that so much of patent law has been predicated on for the past few decades. And I think that's actually a recurring theme of what's going on everywhere; not just the Supreme Court, when it comes to testing the assumptions. So, we know about *KSR*, the 103 case, we know about *eBay*, the injunction case, *Medimmune*, etc., and now we have the

Bilski case. But also you can see versions of patent reform going on at the Federal Circuit and even much more activity on that score. For example, there's *Seagate*. The Federal Circuit made a big move recently on willfulness. There was a *Microsoft* decision late last year and even more recently another damages case where the Federal Circuit is seemingly recalibrating how to calculate damages. You can also sense that the Federal Circuit is doing something in terms of recalibrating inequitable conduct so that's another issue that's going on.

And, finally, there are other cases going on. Not only *Bilski*, there's the *Ariad* case where once again we're revisiting whether there really is a separate written description requirement from enablement from section 112, paragraph 1. The PTO filed an amicus brief there saying yes there is a separate written description requirement but that case is still looming too. It's not just *Bilski* that we are on the eve of hearing a decision from. And then finally--not in DC but in New York City--there's a case called *ACLU vs. Myriad*. This is a case about whether gene-related patents are really eligible for the patent system. So, yes, we've been issuing, as a nation, those kinds of patents for at least two decades. But now, only now, has the question been raised whether those sorts of patents should be eligible under section 101. So, that's what I mean by a very dynamic time. Then, of course, finally, what's going on in Congress. There's the Patent Reform Bill.

So, what you can see is the patent system is already much different than what it was five years ago. And it's probably going to be much different again five years from today. We can't really tell. I was just telling some Santa Clara law students earlier today that it's great to read what you're reading in your case books about patent law and what all the different legal tests are but don't get too attached to them. Don't get too emotionally attached because you're going to see refinements in a lot of those legal tests coming the next five years.

[Bilski, 101 Jurisprudence](#)

Now I want to talk first about *Bilski* and I don't really have any predictions. I'm not here to try to speculate what the Supreme Court's going to do, but at the very least I wanted to come forward and talk about the agency's perspective on that case and why we did what we did. And it's important to make clear that what the agency was striving for was not to somehow knock out software patents or knock out diagnostic patents. That wasn't the goal. The goal instead was to try to figure out exactly what *State Street Bank* meant when it talked about a useful concrete and tangible result as being the standard for patent eligibility. Now if I could step back, in 1998, the Federal Circuit ruled in *State Street Bank* that to be eligible under section 101, an invention had to have simply useful concrete tangible results and also the court noted there was no such thing as a business method exception to the patent system. So we said as an agency, "Ok, we'll go forward and implement that." And then, what happened was that over the next ten years, there was this new class of applications we started getting. And what I mean by that is applications that had no real connection to any technology.

So we started seeing applications for methods of negotiating contracts, methods of picking a jury, methods of teaching a foreign language--things like this. Methods of outsourcing particular business tasks to a third party. And then the applicant would say, "Well, this has some kind of useful result that has some tangible benefit for the public, so this is eligible under section 101." And yet, at the same time, these were not at all the kinds of patent applications the agency had seen, really, in the prior 200 years. And so we had examiners that were struggling with these kinds of applications. Were these the sorts of things that should be part of the Patent Office? Then there was the second issue that was kind of cropping up since the *State Street Bank* case. And that was we started seeing more and more claims that didn't really have any nuts and bolts in them. These were very broad, kind of result-oriented claims. It would be something like a contraption for trapping mice and it would be so broad it wouldn't really give you the nuts and bolts of, ok what does that mouse trapping mechanism really look like? And, at the same time, a patent applicant could say, "well, it has the

useful results in the claim. That's all that matters. I don't need to have the nuts and bolts in order to satisfy section 101." So, [those] are the two issues we started seeing. We started seeing a new subcategory of patent applications that really didn't have any connection to technology. We started seeing also a drift towards broader and broader concept claims that didn't really have any of the nuts and bolts in there. And so, that's what started to concern the PTO.

And the PTO had to figure out--what do we really do? Is this really eligible for a patent? At the same time, you could see other components in Washington, DC also beginning to wonder about patent eligibility issues. Congress started seeing bills being entered about no tax method patents, no business method patents. You'd see those kind of bills crop up. And then, the Supreme Court took cert. on a case called *Labcorp vs Metabolite* which was a medical diagnostic claim. And though they ultimately dismissed as improvidently granted, they heard argument on that nonetheless. And they required the United States government to file an amicus brief in that case. And they took a hard, hard look at what really is the cut-off line of what should be eligible under the patent system. And then, finally, the Federal Circuit, on its own, started expressing renewed interest in section 101 and a willingness to revisit the whole *State Street Bank* doctrine in a case called *In re Comiskey* which was a section 103 case from the patent board that I personally defended and I went down to the court. And I wrote that brief and I went down to the court with Mr. Comiskey's counsel and all of a sudden that particular three judge panel didn't care about the 103 issue. All they wanted to talk was whether Mr. Comiskey's arbitration method was really eligible for the patent system because it wasn't computer-implemented. It was a purely human-implemented series of steps for conducting an arbitration of disputes in a will. And so the Federal Circuit asked that both sides file supplemental briefing on the section 101 question. Was this eligible under section 101? So, that's where we stepped in and filed the supplemental brief.

Based on our reading, not only of *State Street*, but as we reconciled *State Street* with old Supreme Court case law, including *Diamond v Diehr*, we saw that

“process” inventions, as that term was used in section 101, should be either machine-implemented or should transform some kind of subject matter to a different state or thing. And that was the language we saw from *Diamond v Diehr* and that’s how we construed section 101. And we said Mr. Comiskey’s arbitration method failed to do that. And the Federal Circuit basically accepted that in *Comiskey* as well as later on in the *Bilski* [decision].

So basically what you saw was a bunch of different entities in DC all kind of grappling with this Section 101 question. And that’s how we are where we are now in front of the Supreme Court. Now, why did the Supreme Court take *Bilski*? Is the Supreme Court really going to reverse that decision and proclaim that a pure, human-implemented method of hedging a commodity cost risk to be patent eligible? It’s not clear, based on oral argument, that they’d really do that. What many commentators are saying is that it’s more likely that they’ll affirm the Federal Circuit denial of that patent application under section 101, but it’s quite possible that they could go in a little different direction than this machine-implemented or transformation test that the Federal Circuit adopted from the PTO. They might do something more generic by saying there’s some kind of, technological arts requirement or they might say something else. They might say no business methods. Period. Or at least no non-technological business methods. So, we’ll just have to wait and see. But, what I can tell you is that Director Kappos has made it clear to me that as soon as that decision comes out there’s going to have to be a little team of people in the PTO that have to go into a windowless room and come out with guidelines, very soon, right after that decision comes out. And I’m sure it’ll be in multiple stages.

First, there will be the immediate guidelines for examiners to whatever refinement that the Supreme Court did to the Federal Circuit test. And then, ultimately, there will be a deeper guideline set that we would seek public comment on. And, in fact, that’s what we did with some interim guidelines that came out about half a year ago where we sought public comment. So, I think

that's a theme that I should just hit on right now which is that Mr. Kappos is keenly interested in trying to create a collaborative environment with the patent bar and the inventor community in terms of what should the PTO be doing to improve its processes to improve the quality of the examination--not only to reduce pendency but to make the patent examination process qualitatively better. And you see that in many of the Federal Register notices that we've been issuing where he and the agency have been seeking as much input as possible from the public because he understands that it's not just the agency walled off trying to figure out what's best but the better course is to try to get as much input from as many different people as possible and also to get a buy-in from stakeholders. So, that is something that is going on. I'm sure there might be some *Bilski* questions later and I'll take those as they come.

Wyeth, Test Cases

Briefly I wanted to talk about another recent Federal Circuit decision called *Wyeth*. That's a patent term adjustment case, for those of you who don't know. Basically, when there is some form of delay within the USPTO in reviewing a patent application, there are opportunities after you get your patent to have the term recalculated to get back some of those days that it took for your patent application to be examined. And this is section 154 of the patent act. And the PTO had interpreted that patent term recalculation statute a particular way, in a more conservative way, and Wyeth then took that to the district court basically seeking a broader interpretation which Wyeth prevailed on in district court and then the PTO had a decision to make. Should we just accept the District Court's opinion or should we appeal to the Federal Circuit? And the decision was we should appeal to the Federal Circuit. And that's because what we were looking for is some certainty in any particular given area of patent law. It obviously doesn't matter to the USPTO if we give an extra 432 days of patent term or 694 days of patent term. It doesn't matter to the PTO, but obviously we're trying to, at the same time, protect the public's interest here and take a more conservative view of the extra patent term. We wanted to get the Federal Circuit's finality on

that issue, rather than just leave it hanging at the District Court level. So, I think that's another theme that's going on here in the USPTO which is we're out to take positions wherein, ultimately, we're seeking to get some kind of review from the Federal Circuit.

We're not always taking positions because we think that this is something that benefits the USPTO. We're taking positions where, ultimately, we're trying to get some kind of clarity from the court. An example is the *In re Nuijten* case where the patent application was for an electric signal, a propagated signal. And the question was: is that eligible for the patent system under section 101? And, we had, as an agency, been taking the position that that was allowable, that was eligible, and we were examining those types of claims. But then we sat back and said, "Wait a second, is that propagated signal in the air really falling into any of the four categories that are under section 101? Maybe it does, maybe it doesn't. Maybe it's better for the agency to get that resolved by the Federal Circuit and take a test case up there."

Now, we ourselves, as an agency, don't have the power to bring a case to the Federal Circuit. We have to have an applicant basically appeal our position up to the court and then that's the way we get resolution. And in that particular case, the Federal Circuit, in a divided decision, agreed that a signal is not a "manufacture." It's not a machine. It's not a composition of matter. Nor is it a process. And so therefore, there is no space for it in the patent system. And, if Congress wants to, it can always amend section 101 to add another category of patentable subject matter. But, as it stands, it doesn't fit right now. So, that's something that we, at the USPTO, feel like it's in the better interest of the system, as well as for the public, to take positions and try to get them up to court in order to get some clarity and certainty within the system so that we don't issue, say, signal patents for 25 years and then somehow it finally gets up to the Federal Circuit through a District Court patent infringement litigation and only then, 25 years later, does that issue finally get addressed by the Federal Circuit. Because,

that court, it can't take on issues unless it gets the case and the vehicle in order to address the issue. And that's the way the judicial process works.

I also wanted to talk about test cases. Director Kappos is keenly interested in trying to bring more test cases up to the court. And so, that's what he's trying to do, and in particularly one area--section 112. So one example would be what is really a means plus function claim limitation? Do I have to say the word "means"? Now we're really talking about patent geek stuff so I don't know if everyone is going to follow this. But section 112.6 says that if you have a means claim you can claim functionally without any structure, say, the means for doing x, y or z, but if you do that your claim is going to be limited to the structure that you disclose in your specification and whatever equivalents thereof, of that disclosed embodiment in your specification. And what we have right now,, for the most part, is examiners that if they see the word "means" they'll apply 112.6 but if they don't see the word "means" in your claim, then, in all likelihood, they won't apply 112.6. Well what happens if an applicant uses some other indefinite terminology like mechanism for doing x, y or z or module for doing x, y or z? Maybe those claim limitations should also be falling within section 112.6. And then, therefore, the examiner ought to be consulting the specification. And then if the specification fails to disclose any corresponding structure then, under some recent Federal Circuit case law, like *Aristocrat*, what you have is a 112.2 defect, for indefiniteness. I don't know if everyone's following this, but that's one kind of test case, which is to try to figure out maybe if the USPTO should be doing a little bit more than just accepting non-means terminology as always falling outside of 112.6. And the BPAI, in fact, recently issued a precedential opinion in this area called *Rodriguez*. In that particular case the, BPAI, on its own, as a new grounds rejection, found a certain claim limitation to indeed fall within 112.6, consulted the specification, found no structure and ultimately rejected that claim under section 112.2, for indefiniteness. So that might be something. We don't know if Mr. Rodriguez is going to appeal that case to the Federal Circuit, but it's possible.

Another example would be trying to deal with section 112.2-- indefiniteness. What we're hearing, more and more, from academics, from the media, or elsewhere, is that the patents the USPTO issues lack clarity. That there's too much uncertainty as to the scope of any patent rights. And what you get is then a disconnect in the conception that the patent owner has versus competitors as to the real scope of any given patent. And then, with that disconnect and that uncertainty, that leads to patent litigation. And that leads to years of litigation and millions of dollars of expenses that ultimately it has to go all the way up to the Federal Circuit for the court to finally proclaim what a given claim term means. And, so, what can the USPTO do more to try to improve the clarity and clean out the ambiguity in claims that we're examining and ultimately issuing? I think that's another issue that the Patent Office is taking a look at. So, it's not just *KSR*; it's not just prior art rejections. There's also section 112 and section 101. And all three legs of the stool need to be employed and enforced.

The Backlog

I just wanted to talk quickly now about some of the operational changes we're trying to deal with. Right now, as many of you know, we receive well over 400,000 patent applications a year. Professor Chien here was talking about the Post Office as an analogy. It is also an analogy in the sense that we are like a second Post Office where we are just getting hit with thousands of applications every day and we're just swimming in documents, in patent applications. And we have well over 700,000 applications that have not even received a first office action. And on average, it takes a couple years to get that first office action. So imagine, many of you are patent lawyers here, and you have to file a patent application and tell your client "well, if you're still working where you are, and I'm still working where I am, I'll see you in two years and we can talk about the examiner's office action and what we're going to do about it." So, obviously, that is an unworkable situation. The BPAI now has its own backlog problem. It currently has 17,000 pending appeals. The patent board had a record year of 6,000 disposals last year. That was a record-breaking year. The Board literally

broke its back to do that but it still has 17,000 waiting. So, it's not hard to do the math. If we just cut off any appeal rights of examining patent applications, the patent Board, all 85-90 administrative patent judges, would still have to keep working for about three years to work that all down. And currently, statistics are showing that it takes about two-and-a-half years, on average, from filing your notice of appeal to the board to getting that final board decision. So we're seeing a long pendency, all the way through the pipeline.

And then, of course, if you ever get to me, then that's going to be at least another year at the Federal Circuit. You have to first file your appeal, we all have to file our briefs, we have to go to oral arguments and then it's going to take a little while for the Federal Circuit to issue its decision. So, there's a real pendency challenge here, and the agency's goal is to try to get to ten months to the first office action and overall twenty months to final disposition of any given patent application. So, [the agency] obviously [is] not going forward with the *Tafas* litigation, so what other way is the agency going to do it? Does the agency have some other claims and continuation rule package up its sleeve that it's going to unleash on the patent community? The answer is definitely no. That's not the program.

The New Count System

What I think, collectively, with a bunch of smaller programs, what the agency is trying to do is create better incentives to have compact prosecution for each and every patent application. One thing that we've done recently is redone the examiners count system, which hadn't been touched in thirty years. Now, the examiner count system--for the prosecutors in the room, you should be well-tuned to this--that this is what motivates examiners. And this is what controls examiners' behavior in many, many ways. As you know, examiners have huge dockets and they only have a relatively short amount of time to devote to any particular application. They get points--we call them "counts"--for every different thing that they do for a patent application. Well, apparently what had happened

was that some examiners had the incentive to try to prolong prosecution of a given invention by trying to encourage applicants to file RCEs. Now, this is starting to get outside of my world, because I'm in a different place in the agency, but this is what I've been told. What the new count system does is gives the examiners more time, as well as more credit for doing that first office action on the merits. And the point of that is and the message to examiners is clear: to try to do as complete an examination up front and also by giving additional time, not only to do the first office action, but also additional time to initiate interviews with the applicants. The examiners now have the incentive to actually call you and try to find agreement on allowable subject matter.

So, what the agency is trying to spur here, obviously, is trying to get the examiners, not just to reject an application, run away and see if you'll file an RCE but to try to work more with applicants to try to find that allowable subject matter early in the prosecution. Because at the same time that examiner is getting more credit up front to do that first office action, they're getting less credit now than they were before on RCE's. So, you can see that the incentives have now been rejiggered somewhat so that RCE's aren't quite the boon that they had been for examiners. As you can see, the whole direction is trying to close down prosecutions as fast as possible and not prolong examination.

Early Interview Program, Worksharing

Another thing is the early examiner interview program. It's a pilot and in certain art units, you can request an interview, even before your first office action. And what we've seen already is that there has been a jump in first office action allowance in those situations as well as quicker disposals. So that I think has been an improvement. Then there is the work-sharing program that the agency is really a true believer. And that entails foreign Patent Offices where if a foreign Patent Office allows the same patent application, for claims in the same patent application, in that foreign country then the applicants here in the United States can basically have your US application advanced right up to the front and the

examiner then will pick up your application and then review it in light of everything that happened in the prosecution history in that foreign Patent Office. What we've seen already in this pilot program is a reduction in the average office actions for these kinds of patent applications from 2.7 to 1.7 so you save a whole office action cycle by using the patent prosecution highway.

Application Exchange

There is also another program called the Application Exchange but it's also been called many other things. Some people call it cash for clunkers; some call it bump and dump. I don't know if this particular program has been promoted enough to make it all the way out here to California, but basically this is a pilot program right now only for small entity inventors who have multiple patent applications pending in the USPTO. If that applicant is willing to abandon, straight out, one of those pending applications, he can have another one of his applications and moved up to the front of the queue. And the idea behind this is that it allows the applicant to prioritize for the agency what applications are really important and should be examined and which ones, really, should just fall out. Now, right now, this is again a pilot program like so many of these others but we've seen some uptake already on it. This is something we're also encouraged about and looking at hard as another opportunity to open it up on a broader level.

Fees

Finally, there's the fees question. Right now we will fail in our mission if we don't get basically a new fee structure at the agency. Everybody has probably been familiar with fee diversion issues that the agency has had to contend with over several years. We're a fee-funded agency. But, at the same time, we don't just automatically keep all fees that we collect whether it's for filing fees, issue fees, maintenance fees. Technically, what we do is that we turn all that in to Congress and Congress turns back and gives it back to us. Except for several years it had been withholding, every year, several hundred million dollars collectively. And we're facing that issue again in fiscal year 2010 where it looks

like we're going to be getting in more money than Congress is going to be giving back to us. And you couple that with what happened to the agency's budget last year where we basically collected a couple hundred million less than we had expected due to a decrease in application filings as well as payment of issue fees and maintenance fees.

Right now we are unable to do a lot of the things that we want to do in order to improve our efficiencies within the USPTO. For example, our IT situation is basically a mess and a lot of that can be attributed to the fact that we haven't had the proper funding to deal with that situation. For example, in this Wyeth case, the Federal Circuit mandate is going to issue on March 1st. And the IT program in our office is basically going to have to move mountains in order to comply by the time the mandate issues with recalculating all patents after March 1st to have the new patent term calculations as interpreted by the Federal Circuit in that case and so these are the kinds of practical challenges the Patent Office faces. So, in a nutshell, there's all sorts of operational changes that are going on and there's also case law changes that are going on and I think I'll stop there and I'll turn it back to Colleen.

[For Q and A please refer to the audio tape]