

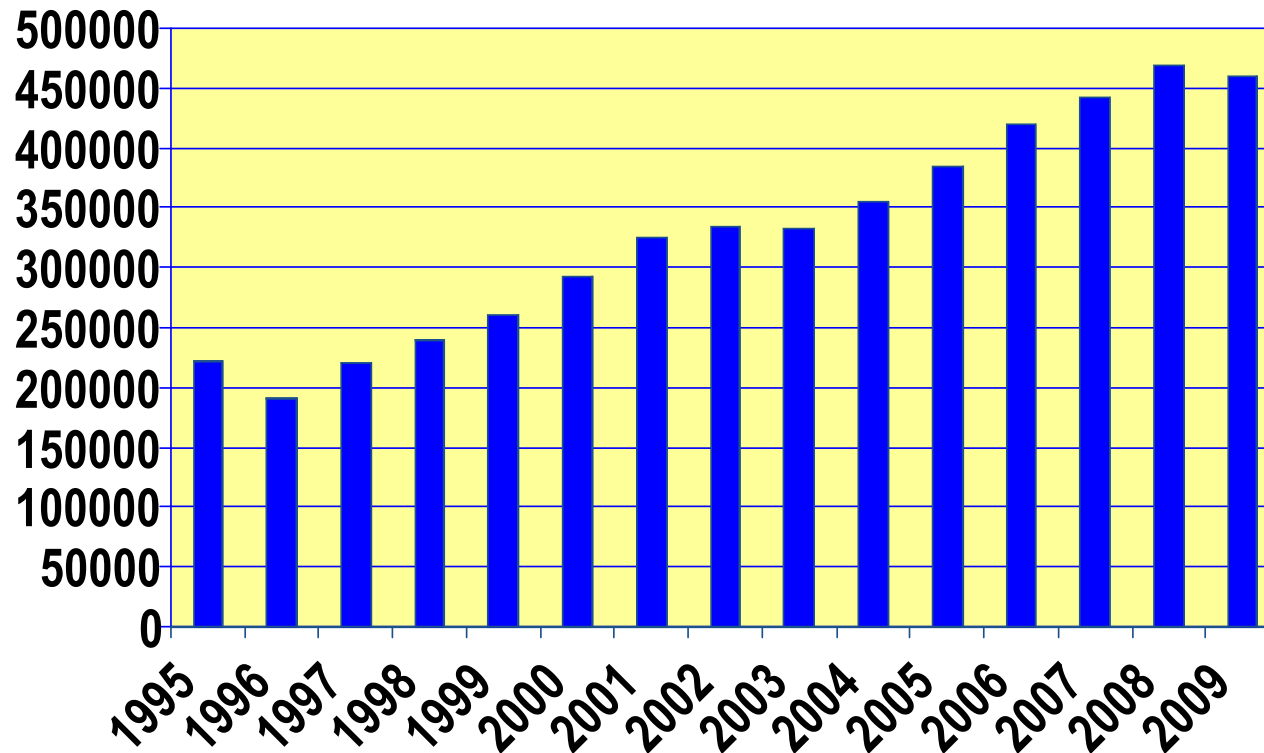
MATTO Seminar
**The Perfect Storm—Changes in
the Patent System in Congress, at
the USPTO and Internationally**

December 4, 2009
Jon Dudas, Partner
Foley & Lardner LLP



Statistics and Trends

UPR Filings

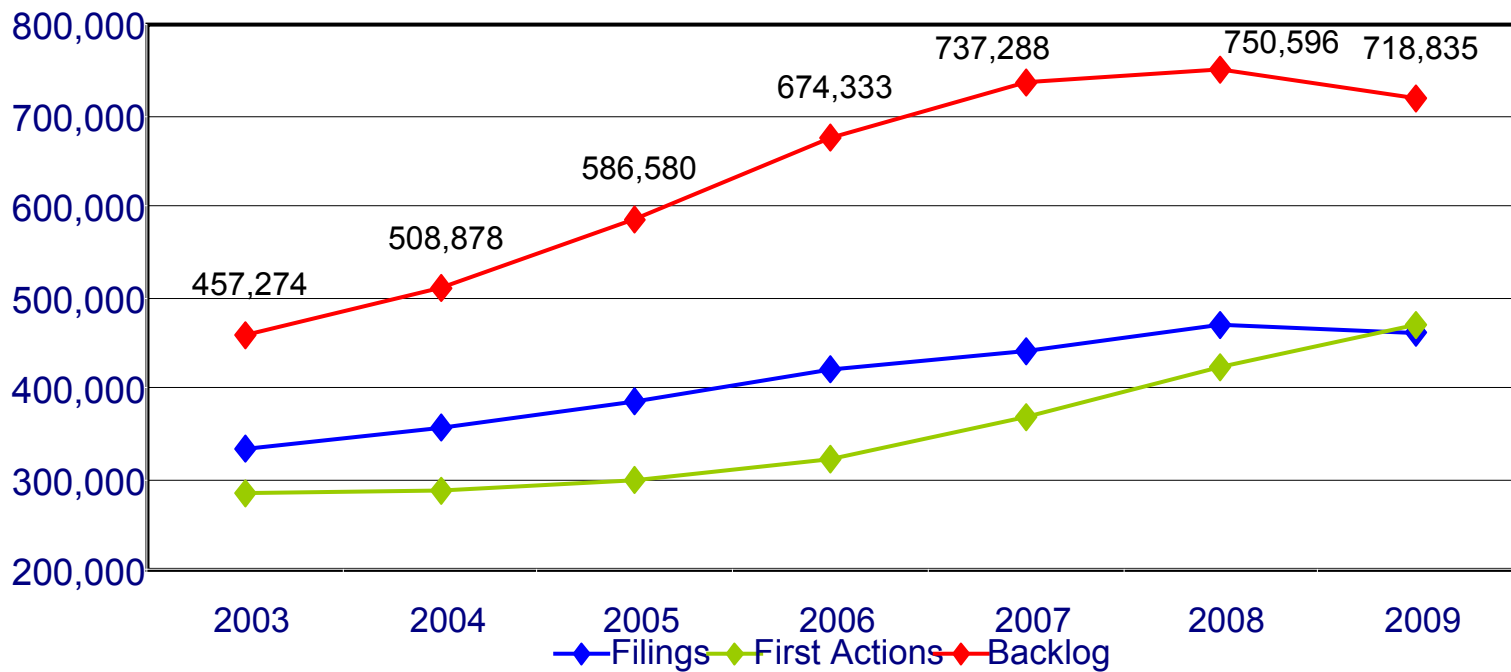


- FY 08
468,669
- Growth of
6.1% from '07
- FY 09 *
459,919
- Growth of -
1.9% from '08

FOLEY

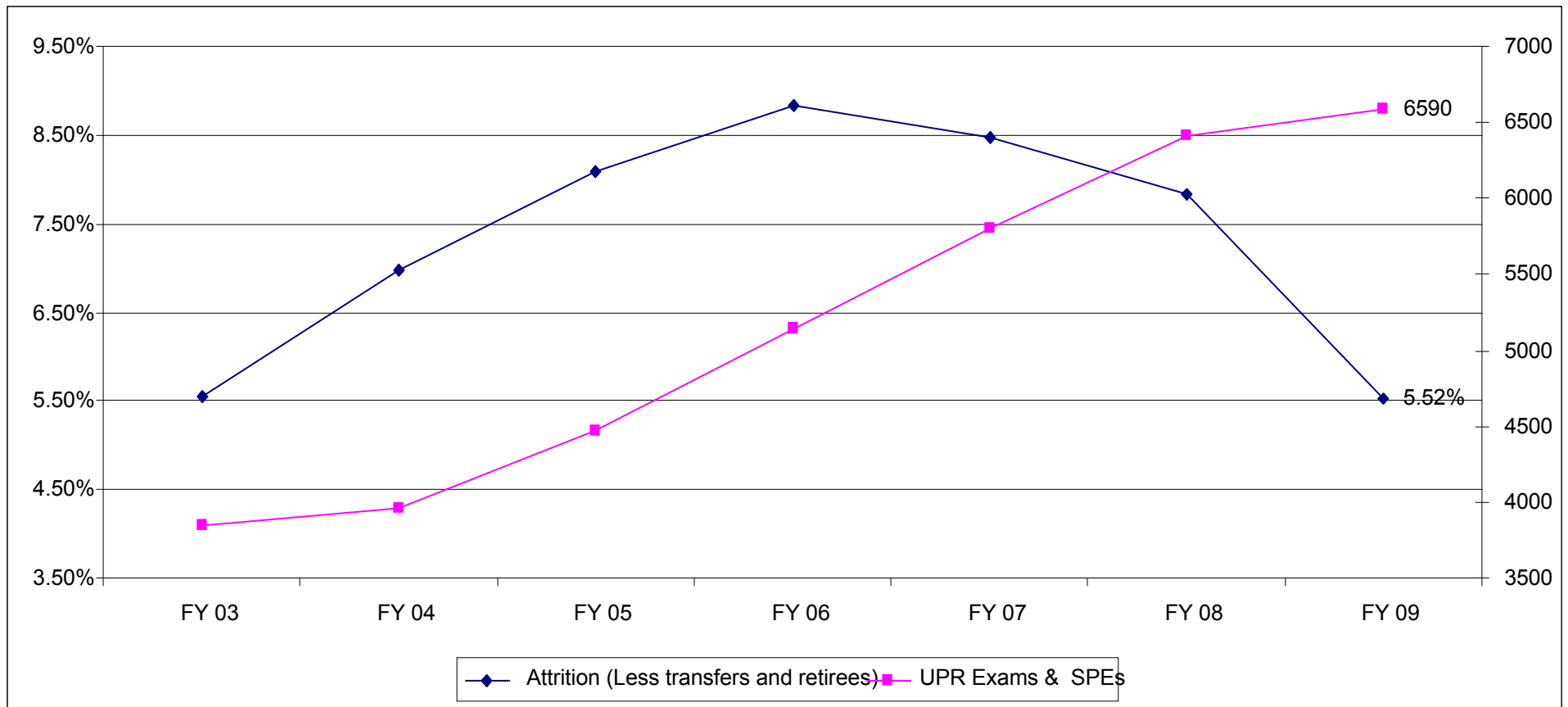
* FY 09 Filings are Preliminary

Filings, First Actions, & Backlog



- FY09**
- Backlog decreased **4.2%**
 - Filings decreased **1.9%**
 - 1st Actions increased **11.3%**

Attrition and UPR Staff



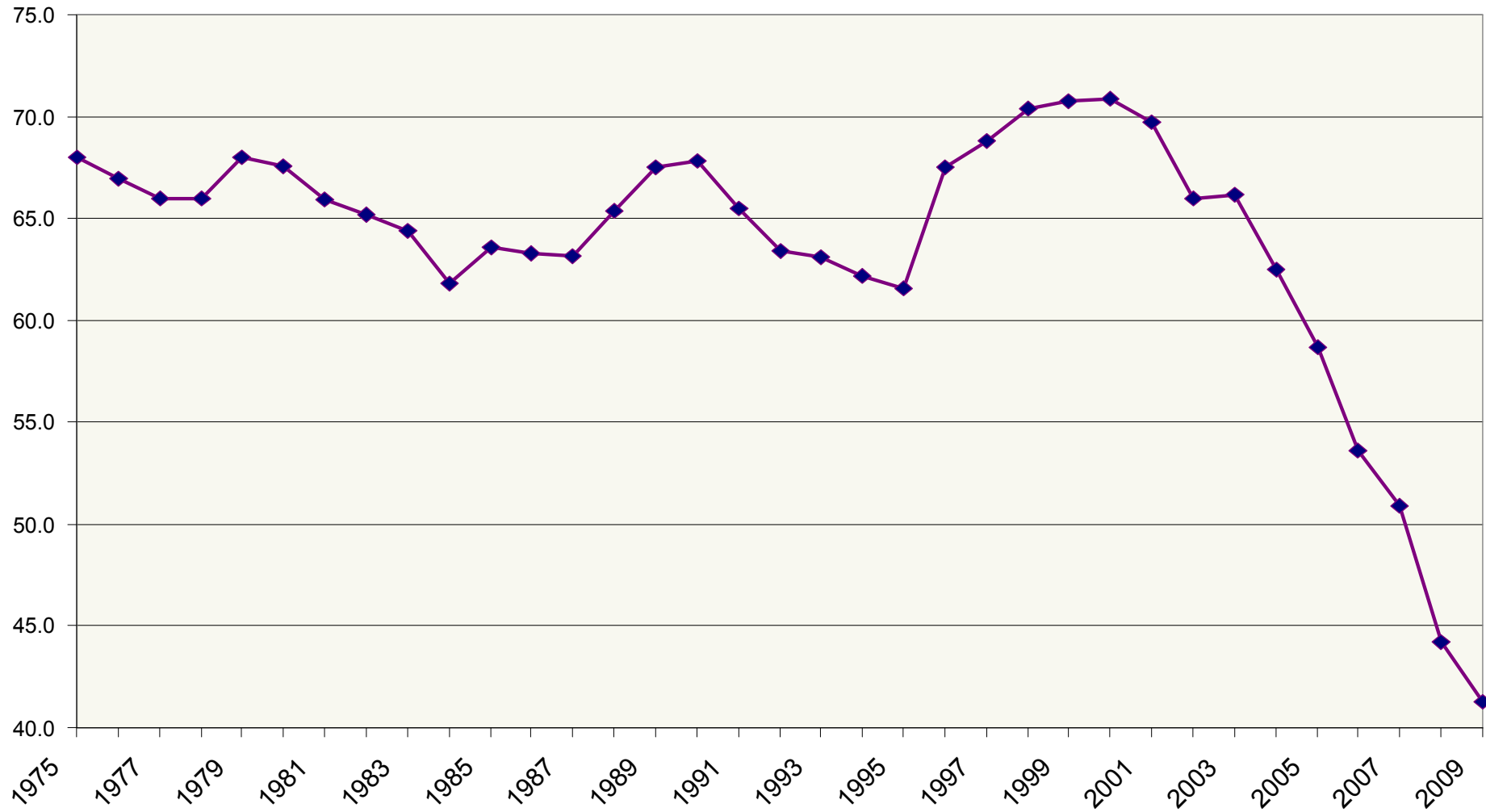
Patent Pendency – FY 08 and FY 09

| Technology Center | Average 1 st Action Pendency (months) ¹ 4 th Quarter FY08 | Average 1 st Action Pendency (months) ¹ 4 th Quarter FY09 | Average Total Pendency (months) ² 4 th Quarter FY08 | Average Total Pendency (months) ² 4 th Quarter FY09 |
|--|---|---|--|--|
| 1600 - Biotechnology and Organic Chemistry | 19.9 | 22.5 | 34.8 | 35.1 |
| 1700 - Chemical and Materials Engineering | 27.5 | 25.9 | 36.3 | 37.4 |
| 2100 - Computer Architecture Software | 30.8 | 29.4 | 42.4 | 40.7 |
| 2400 - Networking, Multiplexing, Cable, and Security | | 28.6 | | 47.7 |
| 2600 – Communications | 32.5 | 33.0 | 43.6 | 42.7 |
| 2800 - Semiconductor, Electrical, Optical Systems | 19.5 | 20.8 | 28.2 | 29.7 |
| 3600 - Transportation, Construction, Electronic Commerce | 24.3 | 24.4 | 34.8 | 35.1 |
| 3700 - Mechanical Engineering, Manufacturing , Products | 24.7 | 26.5 | 32.7 | 35.5 |
| UPR Total | 25.6 | 25.8 | 32.2 | 34.6 |

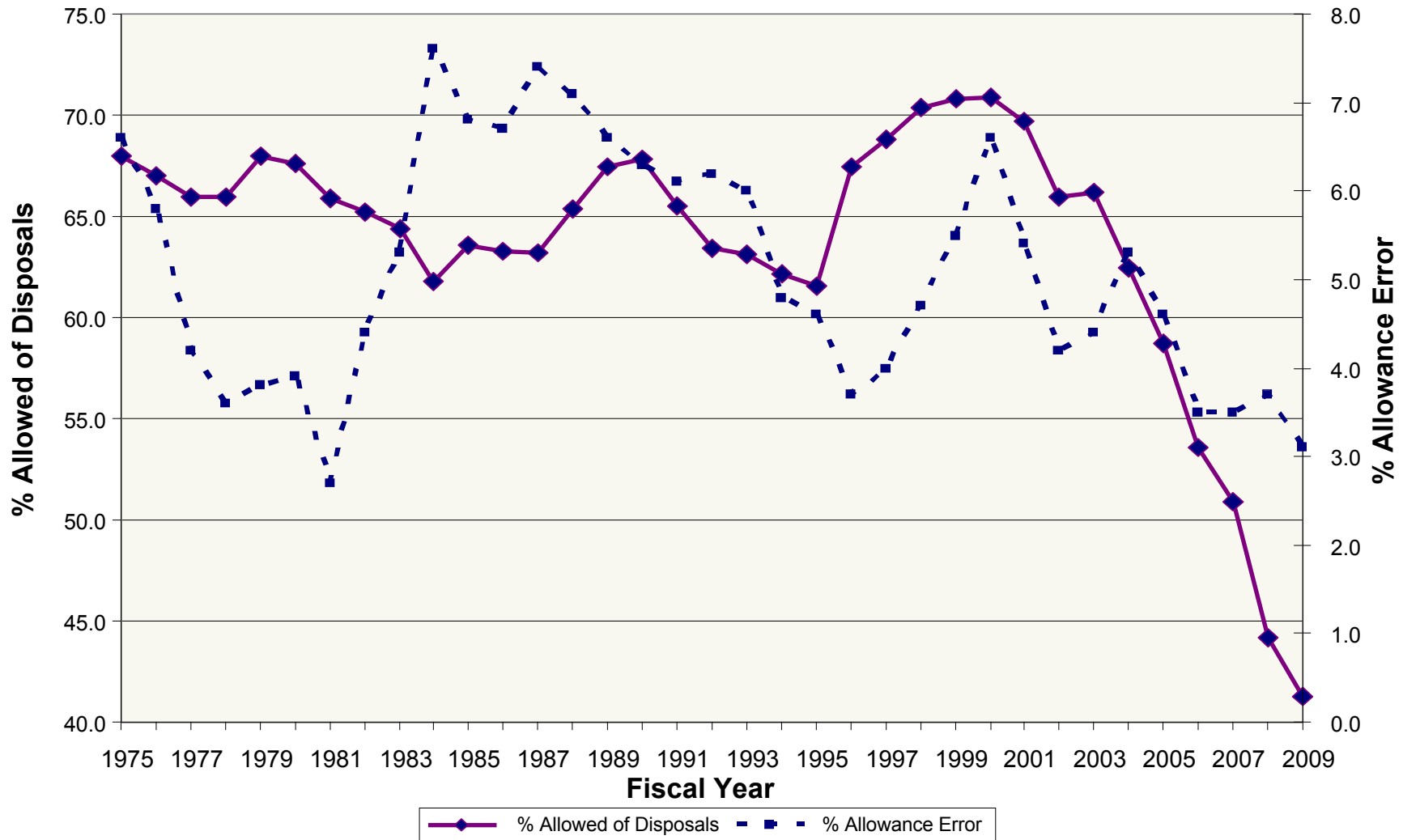
¹ “Average 1st action pendency” is the average age from filing to first action for a newly filed application.

² “Average total pendency” is the average age from filing to issue or abandonment of a newly filed application.

Allowance Rate

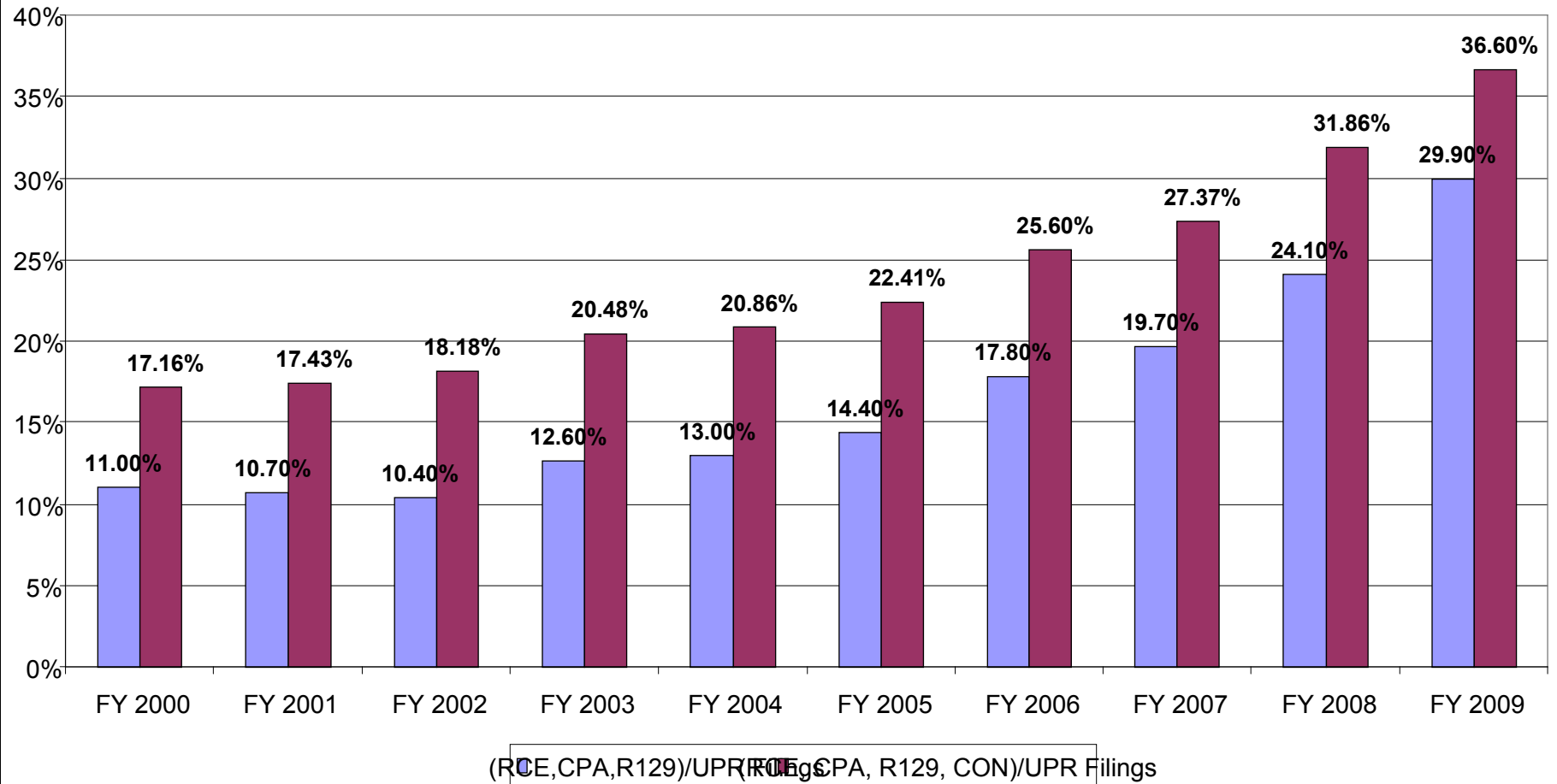


Error and Allowance Rates



RCE and Continuations Percentage of Total UPR Filings

RCE and Continuations Percentage of Total UPR Filings





Enhanced First Action Interview Pilot



Enhanced First Action Interview Pilot

- Benefits of Participation:
 - Ability to advance prosecution of an application
 - Enhanced interaction with the examiner
 - Opportunity to resolve issues one-on-one with the examiner at the beginning of prosecution, and
 - Opportunity to facilitate early allowance
- http://www.uspto.gov/web/offices/pac/dapp/opla/pr/eognotice/faipp_v2.htm



Enhanced First Action Interview Pilot Statistics

(as of 9/25/09)

- 493 Applicants have joined the pilot program
- 381 Pre-interview Communications mailed
- 320 Interviews have been conducted
- 276 First Action Interview Office Actions mailed
- 118 Allowances:
 - 53 allowed after pre-interview communication but before FAI office action
 - 37 allowed after the FAI office action
 - 28 allowed without/before pre-interview communication



Application Eligibility (available through 3/10/2009)

- **New utility non-provisional applications that fall within one of the following groups may be eligible for the Enhanced First Action Interview Pilot Program:**
- Applications filed on or before November 1, 2006, and assigned to workgroup 1610 .
- Applications filed on or before October 1, 2006, and assigned to art unit 1795.
- Applications filed on or before February 1, 2008, and assigned to workgroups 2150 and 2160.
- Applications filed on or before July 1, 2008, and assigned to workgroups 2440 and 2450.
- Applications filed on or before June 1, 2007, and assigned to art unit 2617.
- Applications filed on or before May 1, 2008, and assigned to art units 2811-2815, 2818, 2822-23, 2826, 2891-2895.
- Applications filed on or before December 1, 2007, and assigned to art unit 3671.
- Applications filed on or before January 1, 2008, and assigned to art unit 3672.
- Applications filed on or before November 1, 2007, and assigned to art unit 3673.
- Applications filed on or before February 1, 2008, and assigned to art unit 3676.



Application Eligibility Continued

- Applications filed on or before July 1, 2007, and assigned to art units 3677.
- Applications filed on or before November 1, 2007, and assigned to art units 3679.
- Applications filed on or before May 1, 2006, and assigned to art unit 3735.
- Applications filed on or before April 1, 2007, and assigned to art unit 3736.
- Applications filed on or before December 1, 2006, and assigned to art units 3737.
- Applications filed on or before August 1, 2006, and assigned to art units 3768.
- Applications filed on or before December 1, 2006, and assigned to art unit 3739.
- Applications filed on or before September 1, 2007, and assigned to art units 3762 and 3766.
- Applications filed on or before September 1, 2006, and assigned to art unit 3769.
- **Class and art unit assignment data are available via the Patent Application Information Retrieval System (PAIR) at Public PAIR link <http://portal.uspto.gov/external/portal/pair>.**



New Count System



The New Count System

- Joint Labor and Management Count System Task Force Team
 - Management lead: Peggy Focarino, Deputy Commissioner of Patents
 - Labor lead: Robert Budens, Pres. of POPA union
- Briefed the Examining Corps
- POPA Membership Approved the Count System Task Force Recommendation: 63.4% to 36.6%
- The full set of slides can be found at:
www.uspto.gov/web/offices/ac/ahrpa/opa/documents/briefing_for_corps-final_draft-093009-external-jrb.pdf



Overview of Proposed Package

- Combination of count system changes and more time for examiners
 - More time overall (increase in Hrs/Balanced Disposals)
 - More time for FAOM (first action on the merits--FAOMs get more credit)
 - Provide time for examiner-initiated interviews
 - Diminish credit for RCEs
 - Consistent credit for transferred or “inherited” amendments
- Improved working conditions
 - Reduce examiner reluctance to allow applications
 - Shift resources from a focus on Examiner Recertification to front end quality improvements



Additional Time for Examination

- Additional Time for Utility and Design Examiners
 - Start by adding 2 hours to each examiner's FY 09 Hrs/BD
 - Determine impact of reduction in RCE counts based on examiner's FY 09 RCE mix
 - Add additional time, if necessary , to account for reduction in RCE counts so that every examiner gets at least 1 net additional hour over their FY 09 expectancy (Hrs/BD)
- Additional Time for Design Examiners
 - Add 0.7 hours to each examiner's FY 09 Hrs/BD

Revisions to Count System

| Current Count System Original Case (Non-RCE) | | | 1st RCE | | | 2nd & Subsequent RCEs | | | Current Counts | |
|---|-------|---------|---------|-------|---------|-----------------------|-------|---------|----------------|-----------------------|
| FAOM | Final | All/Abn | FAOM | Final | All/Abn | FAOM | Final | All/Abn | | |
| 1.00 | | 1.00 | | | | | | | 2 | Original |
| 1.00 | | 1.00 | 1.00 | | 1.00 | | | | 2 | 1st RCE |
| 1.00 | | 1.00 | 1.00 | | 1.00 | 1.00 | | 1.00 | 2 | 2nd & Subsequent RCEs |

| Proposed Count System Original Case (Non-RCE) | | | 1st RCE | | | 2nd & Subsequent RCEs | | | Proposed Counts | |
|--|-------|---------|---------|-------|---------|-----------------------|-------|---------|-----------------|-----------------------|
| FAOM | Final | All/Abn | FAOM | Final | All/Abn | FAOM | Final | All/Abn | | |
| 1.25 | 0.25 | 0.5 | | | | | | | 2.00 | Original |
| 1.25 | 0.25 | 0.5 | 1.00 | 0.25 | 0.5 | | | | 1.75 | 1st RCE |
| 1.25 | 0.25 | 0.5 | 1.00 | 0.25 | 0.5 | 0.75 | 0.25 | 0.5 | 1.50 | 2nd & Subsequent RCEs |

Comparison of Current System to Proposed New System

In FY 09, an Examiner had 1,150 examining hours:

| Examiner's FY09 Stats | Current Count System | Proposed Count System |
|---|----------------------|---|
| 35 Reg. FAOMs (70% Reg FAOM) | 35 counts | 43.75 counts |
| 15 RCE FAOMs (30% Reg FAOM) 75% 1 st RCEs, 25% 2 nd & subsequent RCEs | 15 counts | 14.06 counts |
| 50 Finals | 0 counts | 12.5 counts |
| 50 Disposals | 50 counts | 25 counts |
| Total | 100 counts (50 BDs) | 95.31 counts (47.66 BDs) <i>[reduced total counts]</i> |
| Goal: HRs/BD at position factor | 23.0 HRs/BD | 25.08 HRs/BD <i>[adjusted higher Hrs/BD]</i> |
| % Achievement | 100.0% | 103.9% |



Examiner-Initiated Interviews

- A program for granting non-examining time for substantive examiner-initiated interviews. One hour of non-examining time will be granted for conducting the interview and preparing the post-interview documentation for examiner initiated interviews.
- Not for routine restrictions via telephone.
- Examiners are to continue to follow guidance regarding interview practice, use the proper interview forms, and document a clear, concise interview summary that ensures the substance of the interview is on the record.
- Examiners are also encouraged to follow the best practices outlined in the Interview Training workshop.



Changes in Docket Management Policies

- Special New Case Docket
 - RCEs filed on or after a date to be determined will be placed on the Special New Case docket
- No longer on the examiner's Amended Docket
 - With a two month turn around time period



Worksharing The Patent Prosecution Highway



What is the PPH?

- A Program between two nations to exchange results and accelerate prosecution.
- The applicant submits to the second office only those claims approved in the first office.
- In return, the applicant's application goes to the front of the line in the second office.



Government Benefits from PPH

- Incoming PPH applications allows patent offices to gain efficiencies by receiving substantially similar applications and examination results from another office.
- Outgoing PPH applications allow entities from its nation to receive quicker results in foreign nations.
- PPH allows governments to test, measure and refine the benefits of actual worksharing.



Applicants Benefit from PPH

- Quicker results
- Higher allowance rates
- More cost-effective compact prosecution
- The most significant data comes from the Japan-US PPH



Japan-US PPH Results--Timeliness

- PPH between Japan and the US has made patent decisions much quicker. The time to first action decreases dramatically:

Regular cases

| | |
|-------|-------------|
| Japan | 26 months |
| US | 26.2 months |

PPH cases

| |
|------------|
| 2-3 months |
| 3 months |



Japan-US PPH Results—Allowance Rates

- PPH between Japan and the US has led to much higher allowance rates:

| <u>Regular cases</u> | | <u>PPH cases</u> |
|----------------------|--------|------------------|
| US | 44.2 % | 94 % |
| Japan | 49 % | 65 % |

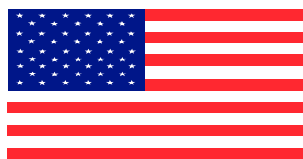
- A PPH application from Japan is *three times* as likely to receive a *first action allowance* at the USPTO.



Japan-US PPH Results—Compact Prosecution

- A PPH application from Japan to the US has led to a quicker, more compact prosecution.
- The average number of actions per disposal is reduced by 50%:
 - 3.4 average actions in a regular case
 - 1.7 average actions in the PPH

The Success Between Japan and the US has Led to the Growth of the PPH

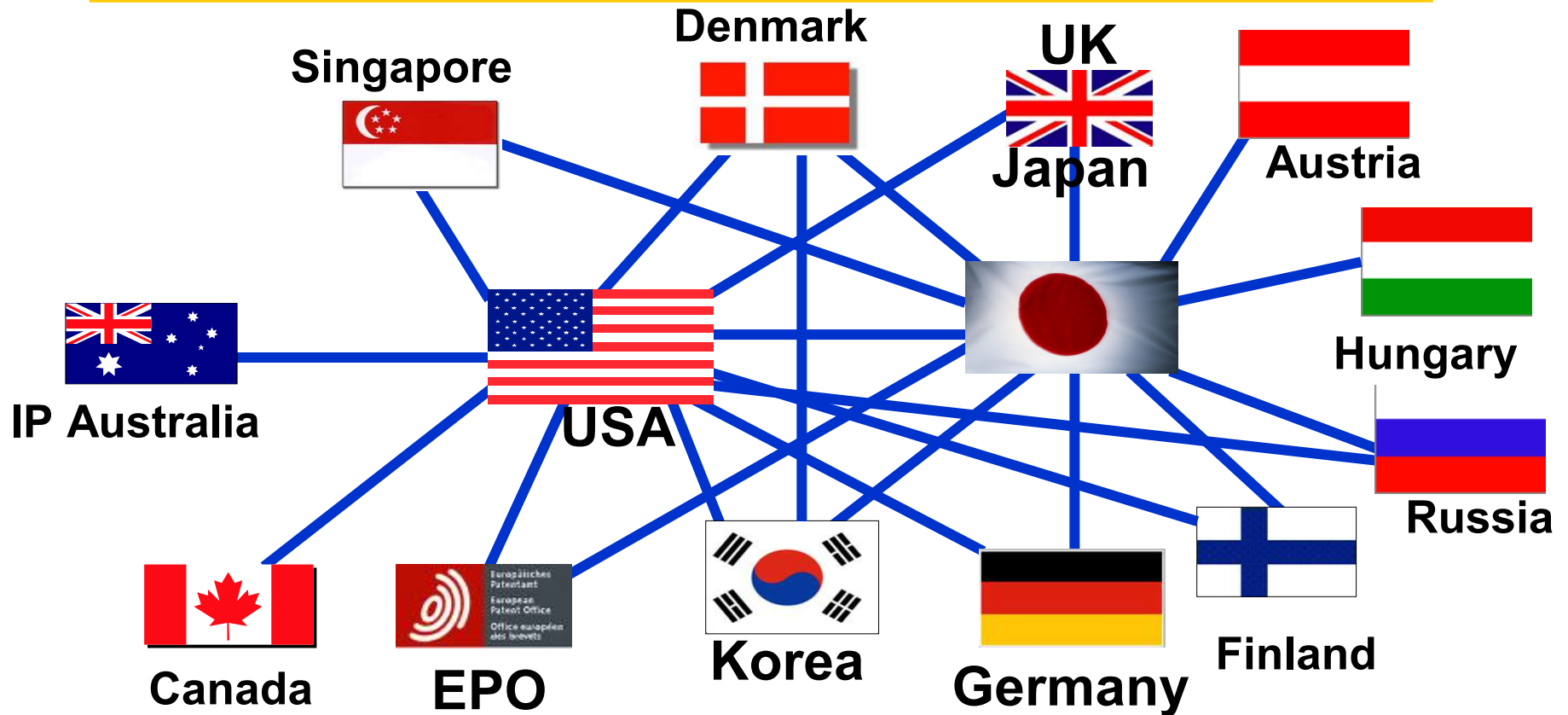


Australia
Canada
Denmark
European Patent Office
Finland
Germany
Japan
Korea
Singapore
United Kingdom
Russia



Austria
Canada
Denmark
Hungary
Finland
Germany
Korea
Russia
Singapore
United Kingdom
United States

Patent Prosecution Highway

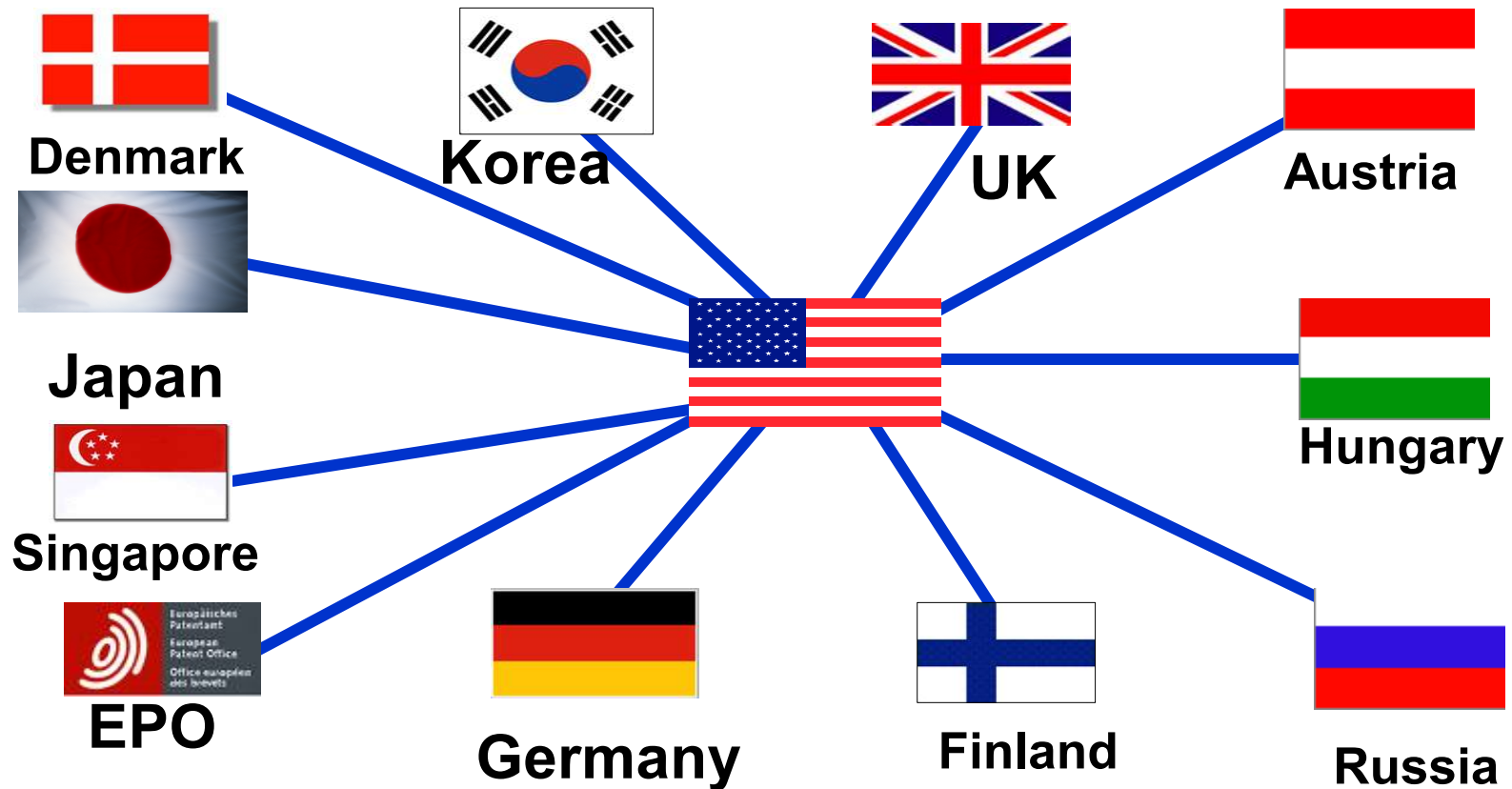




Goal: Patent Worksharing

- Patent Prosecution Highway relationships have pointed to the need for the developed country patent offices to go beyond a series of individual *bilateral* agreements to reach a collective *multilateral* agreement to fully implement patent worksharing.
- File in one office and can go to all partners.

Proposed Plurilateral Patent Prosecution Highway Example





What the PPH is Not

- It is *not* a system of mutual recognition. An independent search and examination is required in both the JPO and the USPTO.



PATENT REFORM UPDATE



Juries Award Higher Damages and More Often than Judges

- Since the mid-1990's, juries have consistently found for plaintiffs at a higher rate than bench trials
- Since 2000, jury awards have been more than **nine times higher** than bench trial awards



Juries are Increasingly Deciding Damages Awards

- The trend is increased use of juries, rather than bench trials, to determine damages
 - 1980s—Jury decided awards in 14% of cases
 - 1990s—Jury decided awards in 22% of cases
 - 2000s—Jury decided awards in 43% of cases

PricewaterhouseCoopers 2008 Patent Litigation Study



United States Patent Reform

- The most significant changes to patent law in half a century are being debated in the US
- They affect every business model and every industry



Senate Compromise

- On April 2, the Senate Judiciary Committee approved their bill, S. 515 by a vote of 15-4
- Key Senators agreed to a deal on the key provisions of damages, venue, willfulness and reexamination to move the bill forward
- One key sponsor of the bill voted “No”



House Judiciary Committee Hearing

- Hearing April 30
- Key Members dispute the Senate compromise:
 - Chairman Conyers: **“This body is no more a rubber stamp for the Senate than the Senate is a rubber stamp for the House.”**
 - Ranking Member Smith: **“It's not going to be helpful if the Senate takes a ‘take it or leave it’ attitude on the Senate bill.”**



The Administration Weighs In

- October 5—Obama Administration submits its Views Letter
 - Largely Supportive of Senate Compromise
 - Secretary of Commerce Gary Locke
 - Focuses on Funding and Authority
- October 6--Director of the USPTO, David Kappos, elaborates



Funding--Issue Number 1

- **SUPPORTS—Authority to Adjust Fees**

The USPTO needs a better funding structure

- 15% surcharge anticipated in 2010, 2011
- Reporting requirements for fee increase
 - Patent Public Advisory Committee
 - Congress
- Kappos: No appropriations strategy to rush the funding



More Authority for the USPTO?

- **SUPPORTS**—Substantive Rulemaking Authority
 - USPTO seeks broad authority to govern itself
 - Not in current bills but in earlier versions
 - Congressional reaction to broadened authority?
 - At least, clarify procedural rulemaking authority



Administration Supports Worksharing

- **OPPOSE**-Limiting use of competitive sourcing and foreign office worksharing
 - Senate bill provision threatens global IP view
 - Growth of the Patent Prosecution Highway will be enhanced



The Patent Reform Logjam

- After six years, the bills were on a fast track
- Patent reform has fizzled
 - No official action since April
 - Key opportunities to vote have been missed
- December passage is highly unlikely--next and best opportunity to pass a bill is March 2010



Steps Left for Legislation

- Regular legislative process would require six more steps
 - Four more opportunities to amend
 - Six more votes
 - Two votes each--full Senate and House
- Fastest plausible route is two more votes—Senate Floor and House Floor



Skipping the Process

- The many steps outlined in the previous slides is a “normal” route for enactment of legislation
- But, there are numerous procedural shortcuts that *can* be attempted – and which sometimes succeed
- Shortcut steps *may* be used to speed passage of the bill



What is Happening Now?

- USPTO needs the increased budget *now*
- Shortcut in the process is almost certain
- Skipping the House Judiciary Committee
 - Patent Reform leaders in the House and Senate have been at odds
 - Key House Members want changes
 - Unofficial amendments are being drafted *now*



What is next if Patent Reform passes?

■ Implementation

- Once passed, the biggest changes take place
- The USPTO has specific rulemaking authority in the bill to implement the provisions
- The Administration has 12 months after the bill is signed to establish comprehensive rules

Additional Legislation

- Administration may press for patent reduction measures
- New efforts to address “non-practicing entities”



PATENT REFORM LEGISLATION KEY PROVISIONS



Patent Reform—Key Provisions

- Damages
 - Reasonable Royalty
 - Willfulness—Treble Damages
- Venue
- Administrative Challenges
 - Post-Grant Review
 - *Inter partes* reexamination
- First-to-File
- Inequitable Conduct



Damages Under Current Law

- Current law--judges may give little direction and wide latitude to juries to determine a damages award based upon reasonable royalty
- *Georgia-Pacific* (the primary damages case in the US), lists 15 factors for juries to consideration



House Bill—Reasonable Royalty

- Reasonable royalty damages are directed to three specific methods:

(1) Entire market value—“a royalty can be based on the entire value of an infringing product or process only when the patented invention is the **predominant** basis for demand.



House Bill—Reasonable Royalty

- Reasonable royalty damages are directed to three specific methods:
 - (1) “Marketplace licensing” --royalty damages based upon existing licenses for the claimed invention
 - (2) “Marketplace licensing” --royalty damages based upon existing licenses for the claimed invention



House Bill—Reasonable Royalty

- Reasonable royalty damages are directed to three specific methods:
- (3) “Value calculation” -- reasonable royalty is “applied only to the portion of the economic value ... properly attributed to the claimed invention's **specific contribution over the prior art**”



Damages Under Current Law

- In some cases, the judge directs the jury to review all 15 factors and make its determination from them
- The damages debate has centered around how much specific direction a judge should give to juries



Gatekeeper: Senate Compromise

- The judge acts as a “gatekeeper for the jury”
- Parties present what only legal bases they believe the jury can consider for damages
- The judge is required to specify to the jury what factors it may consider in a damages calculation



Administration on Reasonable Royalty

- **SUPPORTS** Senate “gatekeeper” compromise



Gatekeeper: Senate Compromise

- The jury may consider *only* those factors the judge presents as relevant
- *Requires* the judge to exercise more control over what a jury hears and decides on damages
- Gives a better record to appeal a decision



Willfulness; Treble Damages

- There has been broad agreement to codify the *Seagate* decision in both the Senate and the House



Willfulness; Treble Damages

- A patent owner may get treble damages if:
 - Patent owner proves objective recklessness
 - By clear and convincing evidence, AND
 - infringer had written notice
 - Infringer had opportunity to investigate
 - Infringer intentionally infringed or infringed after a previous judgment
 - Safe harbor does not apply



Willfulness; Treble Damages

Standard for Willfulness Award:

- Willful infringement may be found only if the patent owner proves “objective recklessness” by *clear and convincing evidence*



Willfulness; Treble Damages

- Willfulness can only be found only after patent owner provides *written* notice to infringer:
 - alleging acts of infringement such that the infringer objectively believes there may be a lawsuit, AND
 - identifying with particularity
 - each claim of the patent,
 - each product or process that infringes, and
 - the relationship of such product or process to the claim



Willfulness; Treble Damages

Opportunity to Investigate:

- Willfulness requires that, after receiving the written notice, the infringer had “a reasonable opportunity to investigate”



Willfulness; Treble Damages

Establishing Acts of Infringement

Willfulness requires that infringer:

- intentionally copied the patented invention with knowledge that it was patented OR
- After a previous finding of infringement, the defendant infringes the same patent in the same way



Willfulness--Safe Harbor

- Objective recklessness is NOT found if:
 - Infringer had good faith belief of invalidity, unenforceability or lack of infringement, AND
 - (1) reasonably relied upon counsel
 - (2) sought to modify its conduct to avoid infringement, OR
 - (3) there is other sufficient evidence of such a good faith belief



Administration on Willfulness

- **SUPPORTS** but needs work
- Administration supports the provisions that are in both the House and Senate bills



Damages Positions

- House of Representatives—H.R. 1260
 - Reasonable royalty specifically defined
 - *Seagate* codification for willfulness works
- Senate—S. 515
 - Gatekeeper function only
 - *Seagate* codification for willfulness works
- Administration **SUPPORTS** S. 515
 - Gatekeeper compromise works
 - Willfulness/treble damages needs work



Venue

The Problem:

What can be done to stop parties with significant business facilities *only* in a few states from being sued in Texas?



Venue (Current US Law)

- Under current law, plaintiffs have wide latitude to choose the jurisdiction of their lawsuits
- Current venue law has led to a flood of cases being filed in jurisdictions considered to be “plaintiff friendly,” particularly the Eastern District of Texas



Venue (House Version)

- Plaintiffs would be prohibited from “manufacturing” venue by assigning patents to other entities or incorporating new entities in a state
- In general, infringement suits could be brought only in states where the defendant is incorporated, has a principal place of business, or has an “established physical facility” that constitutes a “substantial portion” of its operations



Venue Exception (House Version)

- Higher education institutions, their nonprofit licensing organizations, and certain individual inventors would be allowed to bring suits in their home states



Administration--Venue

- **SUPPORTS** Senate compromise



Venue Positions

- House of Representatives—H.R. 1260
 - Focus on defendant’s location
- Senate—S. 515
 - Focus on “clearly convenient” forum
- Administration **SUPPORTS** S. 515



Administrative Challenges

Post-Grant Review

- A new administrative challenge to a patent before the USPTO is proposed in the legislation:
 - Broader possibility of challenge—any basis of invalidity except best mode
 - Challenge must be within 12 months
 - Limited discovery allowed
 - Heard by USPTO Board of Appeals
 - Estoppel for claims held valid
 - 12 months to complete (USPTO can extend up 6 months more)



Administrative Challenges Reexamination—House Bill

- The original bills expanded the basis for *inter partes* reexamination challenge of a patent to include a “public use or sale ”
- The estoppel provision was changed to apply only to issues that were raised rather than that “could have been” raised
- *Inter partes* reexaminations are heard by a single Board of Patent Appeals judge



Administrative Challenges—Reexamination— House Bill

- The compromise in the Senate Judiciary Committee removed the provision allowing an *inter partes* reexamination challenge on the basis of “public use or sale ”



Administration on Post-Grant

- **SUPPORTS** the Senate Compromise on post-grant review/reexamination on a policy basis
- The Administration raised concerns about funding the new procedure
- The USPTO proposes a four year phase-in of post-grant review



Post-Grant Review/*Inter partes* Reexamination Positions

- House of Representatives—H.R. 1260
 - Agrees with Senate on post-grant opposition
 - Public use or sale a basis for *inter partes* reexamination
- Senate—S. 515
 - Agrees with House on post-grant opposition
 - Public use or sale not a basis for *inter partes* reexamination
- Administration **SUPPORTS** S. 515
 - Administration needs time to implement---4 years



First to File

- S. 515 includes First to File
 - Both versions allows an inventor, co-inventor or assignee to publish one year prior to filing
- HR 1260 requires that an acceptable grace period be adopted in other countries before the First to File provision enters into force of law



Administration on First to File

- **SUPPORTS** First to file generally
- Needs work—scope of prior art and grace period
- No specific mention of House provision to require Europe and Japan to adopt an “acceptable grace period”



First to File

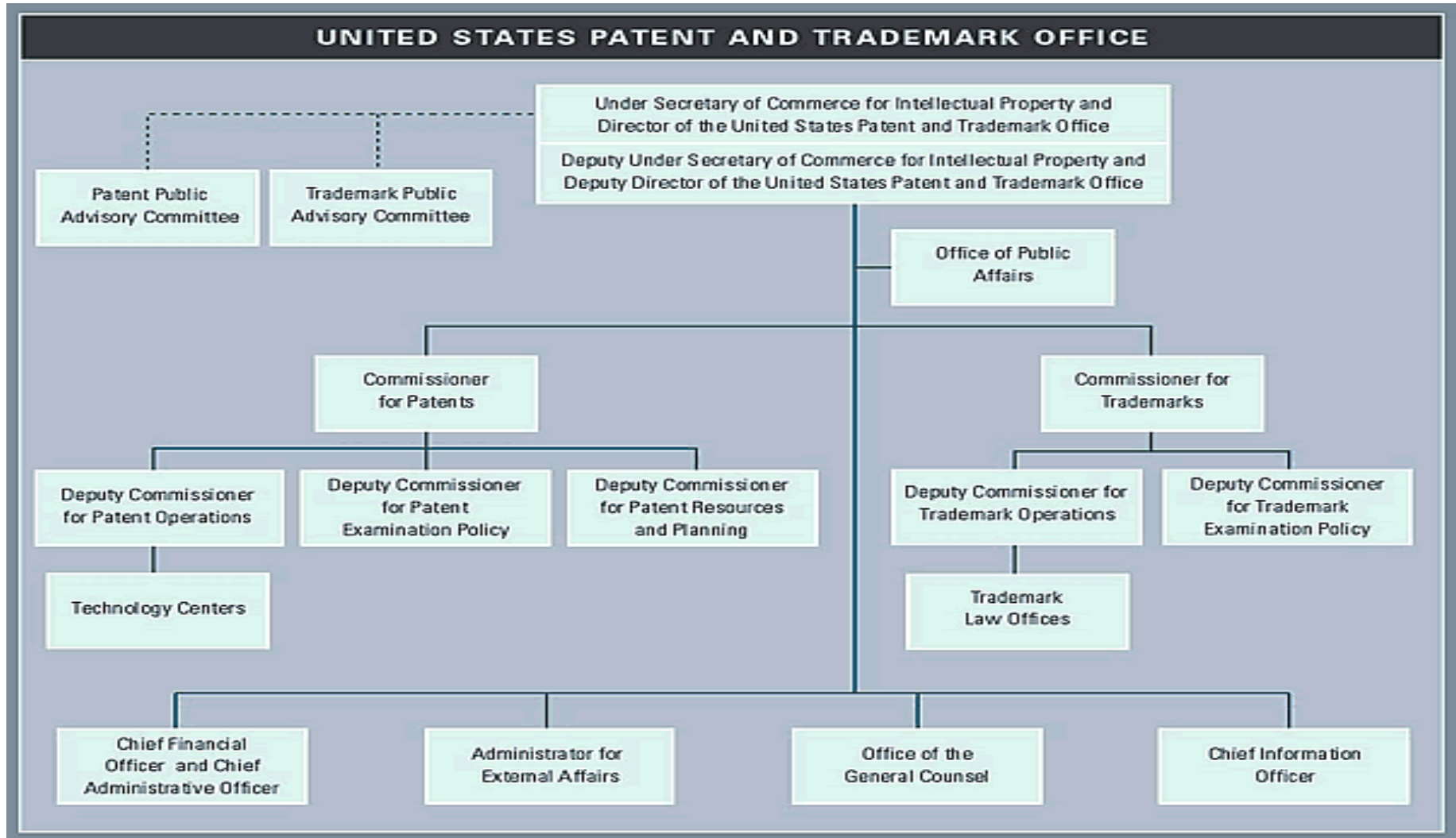
- House of Representatives—H.R. 1260
 - Allows an inventor to publish
 - Requires that an acceptable grace period be adopted in other countries
- Senate—S. 515
 - Allows an inventor to publish
 - No grace period requirement
- Administration **SUPPORTS** S. 515 with concerns
 - Needs work—scope of prior art and grace period
 - No specific mention of House provision to require Europe and Japan to adopt an “acceptable grace period”



Pilot Program for Patent Cases in District Courts

- Get patent cases to judges who want them and away from judges who do not
- Issa bill is a step in that direction
- Pilot project for district court judges who prefer patent cases
- 10 year pilot program with two reports to Congress
- This cuts both ways in terms of why judge might be interested in participating in the program
- Where to file will be an even more strategic decision

USPTO Organization Chart



Thank You

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