

# Patent Reform in the Patent and Trademark Office: Deferred Examination

**Christina S. Wong**  
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## Preface

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### *About Author*

Christina Wong is a rising senior at the University of California Los Angeles. She will receive her Bachelor of Science in Chemical Engineering in June 2011, and has plans to attend law school following graduation.

### *About WISE*

Sponsored by several multidisciplinary engineering professional associations, Washington Internships for Students of Engineering (WISE) is a highly competitive internship program for engineering students with an interest in public policy. The purpose of WISE is to train future leaders of the engineering profession in the intersections of technology and public policy. During the nine-week program, interns learn how government officials make decisions on complex technical issues and how engineers can contribute to legislative and regulatory policy decisions. In addition, each intern researches and presents a paper on an engineering-related public policy issue, which is then published in the WISE Journal of Engineering and Public Policy.

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## Executive Summary

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Patents are extremely important in protecting innovation, especially since innovation is a vital component in economic growth and social development. The United States Patent and Trademark Office (PTO) manages the patent granting process, determining if a patent should be issued. Currently, the PTO faces an increasing backlog of 1.2 million pending patent applications. The lack of resources within the agency causes an extremely delayed system and sometimes poor patent examination.

A granted patent is a contract between an inventor and the public, under which an invention receives legal exclusivity protection for a limited period of time in exchange for an enabling disclosure of the invention. The filing date of the application is important in determining length of protection. Currently, all applications are automatically examined in the order filed.

Instituting a system of deferred examination in which patent applications would, by default, lie fallow in the PTO for up to a maximum period of time until the applicant “requests for examination”<sup>1</sup> of the application, could help alleviate many of the PTO’s problems because a portion of applications would become obsolete after the deferral period and would not have to be examined. After a request for examination, the PTO begins evaluating the application to determine if the invention is patentable. One of the major benefits of deferred examination is that it gives the applicants and industry/patent owners more control in the patent process as best suited to the respective technology, since applicants can choose between status quo automatic examination or deferred examination. This paper analyzes some of the more pressing PTO problems and demonstrates how a deferred examination program could help resolve many of the issues within the agency, ultimately reducing the application backlog. Using the PTO’s rulemaking authority, the following policy should be implemented:

- The applicant is allowed up to three years to request for examination, after which, the application will be abandoned if no requests have been made.
- This program will be separately implemented from the 2010 proposed three-track process.
- The applicant will pay the search, examination, and claim fees upon requesting the examination.
- Third parties who, can anonymously, request examination must pay the associated fees.
- There will be a no changes in patent term adjustment.
- Applications subject to deferral must be published within 18 months of filing.

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<sup>1</sup> “Request for examination” is a term of art used to describe the initiation of an examination to determine whether a patent application fulfills all of the necessary requirements for granting of a patent.

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## 1. Introduction

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Innovation is a cornerstone of American culture. United States' technological innovations are the envy of the world and provide the backbone for the American economy. Most innovations are protected by patents where a patent reflects the development of new technologies, provides incentives for further research, and allows ideas to be accessible to the technical community, which then fosters more technical innovation. "Quality patents are ... valid patents which may be reliably enforced in court, consistently expected to surmount validity challenges and dependably employed as a technology transfer tool."<sup>2</sup>

Obtaining a patent is an intricate process with many moving parts. Patent applications are filed in the United States Patent and Trademark Office (PTO), where they are examined and subjected to an iterative process between the applicant and examiner that results in a granted patent or rejected patent application. The PTO faces a number of problems leading to inordinately long delays in reaching patent decisions ("pendency time") for a patent application and thus delays patents being available to the public. Currently, there is a backlog of more than 720,000 unexamined patent applications and a total of 1.2 million patent applications pending.<sup>3</sup> The PTO lacks funding, which impedes on efforts to hire and adequately train examiners. Resulting complaints surround issues of patent pendency and patent quality.

The PTO has attempted to reform the patent process and has implemented a few pilot programs, none of which have significantly alleviated the problems. Deferred examination, delaying examination of an application until the applicant explicitly requests it, is one reform that has been considered in the past with few details presented. This program has the potential to resolve much of the backlog that the PTO faces. Furthermore, today's technology spreads over a broad spectrum of knowledge areas from drugs to software, all with different patent needs. A "one-size-fits-all" approach to examination that currently exists no longer works. Deferred examination would exist in conjunction with the current system, giving applicants the choice in an examination timeline. Allowing the option of deferred examination ultimately benefits the PTO, the patent applicant, and the public.

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<sup>2</sup> Combeau, Jacques. "Patent Quality." Business Europe. June 2007. Presentation. <[http://www.aipla.org/Content/ContentGroups/Meetings\\_and\\_Events1/International\\_Symposia1/5\\_BE\\_Combeau.pdf](http://www.aipla.org/Content/ContentGroups/Meetings_and_Events1/International_Symposia1/5_BE_Combeau.pdf)>

<sup>3</sup> Carter, Terry. "A Patent on Problems." ABA Journal. March 1, 2010. Web. <[http://www.abajournal.com/magazine/article/a\\_patent\\_on\\_problems/](http://www.abajournal.com/magazine/article/a_patent_on_problems/)>

## 2. Background

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By definition, a patent is an intellectual property right granted by the U.S. government that permits the patentee to exclude others within the United States from “making, using, offering for sale, or selling the invention throughout the United States” for a limited time in exchange for public disclosure of the invention.<sup>4</sup>

A patent is essentially an artificial contract with the government that protects inventions, enabling innovators (inventors and investors in patentable inventions) to be rewarded, typically by excluding others from the marketplace or by collecting royalties for licensing the invention. Patents promote, and provide for, technological innovation. Indeed, the Copyright and Patent Clause of the U.S. Constitution empowers Congress “to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>5</sup> This demonstrates the importance of innovation even in the minds of our Founding Fathers.

### 2.1. Importance of the Patent System

The government fulfills its constitutional responsibility to the public through a patent system that encourages innovation in all technological areas to further advance our society. The patent system facilitates the flow of capital to good ideas<sup>6</sup> and protects the investment of time and money to help turn the inventions into products that benefit society. “Innovation is the only sustainable source for the American economy<sup>7</sup>” because inventors and patent owners use their patents to generate revenue. The patent system must adequately protect the inventor and the investors who risk their capital to exploit the invention to ensure continued innovation in this country. Many large corporations are outsourcing company functions, and thus moving innovators and protection outside of the United States. Because of this phenomenon, the American innovator needs even more protection here to continue technological advancement.

The patent process is aimed at adequately describing, defining, interpreting, and protecting an invention. The translation of the concept of an invention into words must claim all aspects and features of the invention, and essentially entails a series of boundaries that must be defined. Language can be subject to differing interpretations over time, which highlights the importance of adequately defining the invention during the application process.

### 2.2. Definition of Patentability

There are four primary types of intellectual property: copyrights, trademarks, trade secrets, and patents; copyrights are used to protect artistic and literary works, giving the creator of the work the sole right to publicly perform or distribute the work; trademarks are distinctive signs or indicators that identify the goods or services provided by a specific

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<sup>4</sup> 35 U.S.C. § 271.

<sup>5</sup> United States Constitution: Article I, Section 8, Clause 8.

<sup>6</sup> This can be termed as “intellectual capital”

<sup>7</sup> Kappos, David. Enhanced Examination Timing Control Initiative. 20 July 2010. Public Meeting.

enterprise; trade secrecy is the practice of not seeking legal protection for an invention, but keeping it in the realm of proprietary information through confidentiality measures such as agreements between private parties; and patents have already been previously defined.

An invention is patentable if it is of patentable subject matter, novel, useful, and non-obvious. For an invention to be novel, the invention may not have been invented first by another, used by others in the United States, or published anywhere. For an invention to be useful, it must have utility and serve a disclosed purpose. For an invention to be non-obvious, the differences between the invention and public knowledge in the field must be significant enough that a person of ordinary skill in the inventor's field would not find it obvious or predictable.<sup>8</sup>

### 2.3. The Patent Process

The patent process is an iterative exchange between an inventor and the PTO to pursue patent protection. A patent application includes a written description of the invention and a number of claims that define the scope of the invention. After analysis of the application and the pertinent prior art, the PTO examiner can issue a Notice of Allowance agreeing to grant the patent upon payment of various fees, or can issue rejections of one or more claims due to conflicts with prior art or lack of detail, among other reasons. The applicant can respond to the examiner by trying to persuade the examiner, such as with arguments that the prior art was interpreted incorrectly or the claimed feature was misunderstood, or by amending one or more claims in the application. (Note that there is only one primary examiner per application).

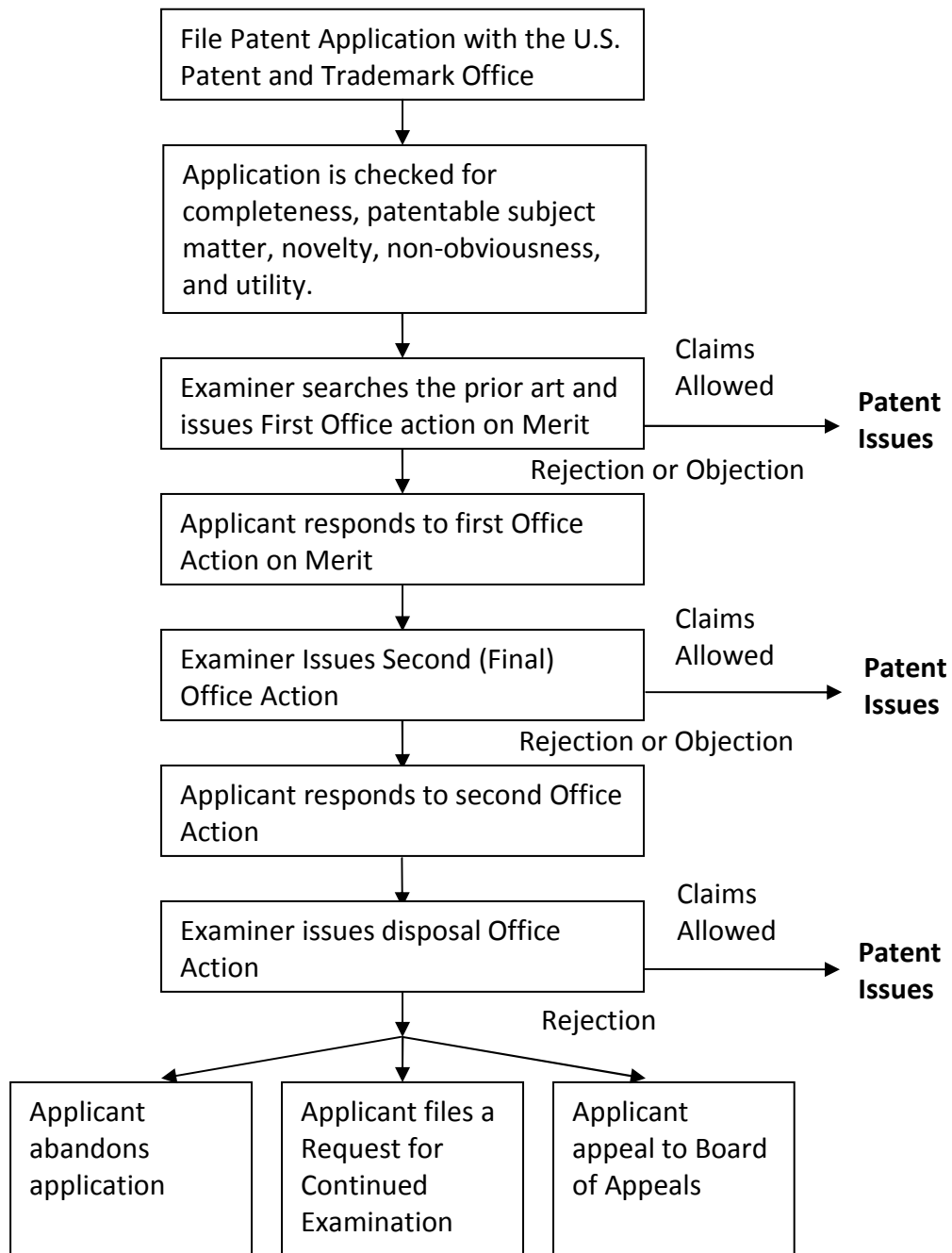
- Claims: provide a legal definition in words of the patented invention
- Scope: defines the boundaries of the invention as defined by the claims
- Prior art: consists of all information that has been made available to the public about the invention, typically before a given date

A granted patent receives protection for 20 years from the filing date of the patent application. In order to retain protection of a patent, the applicant must pay maintenance fees at regular intervals during the 20 year term. Part of the 20 year term will be consumed while the application is still pending. The term of the patent may be adjusted accordingly if the PTO takes longer than fourteen months to mail an action after the filing date of the application, three years to examine and grant the patent, four months after the filing of a reply or appeal brief, four months after a decision by the Board of Patent Appeals and Interferences (BPAI) or a Federal Court, or if a patent doesn't issue within four months of paying all necessary fees and satisfying all outstanding requirements, minus any applicant caused delay – so-called patent term adjustment.

Figure 1 is a simplified flow chart of the patent application process.

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<sup>8</sup> While this definition appears circular on its face, it is in fact grounded in the circular obviousness guidance recently supplied by the U.S. Supreme Court. *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).



**Figure 1: Simplified patent application process.**

### 3. Problems within the Patent and Trademark Office

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Reform within the PTO is vital to ensure continued innovation in the United States, since it “either launches or buries innovation.”<sup>9</sup> The current infrastructure of the examination process provides for lengthy patent pendency and sometimes poor patent quality, which are consequences of various interlinking issues.

#### 3.1. Funding

The PTO is unusual in the type and amount of revenue that it generates. Initially, it should be understood that the PTO is completely funded by its users—the innovation community pays fees at several points in the life cycle of a patent so that no general taxpayer funding is ever used by the PTO. The PTO is presently subject to a bilateral fee transfer process, where the user fees are deposited into the general U.S. Treasury, and Congress then appropriates the funds back to the agency.<sup>10</sup> This system allows Congress to divert funds from the PTO to unrelated federal programs, and results in the additional diversion of substantial time by PTO management and often the Secretary of Commerce in discussions with Congress to retain this funding. According to a report by the National Academy of Public Administration, the PTO fee diversion totaled \$741 million in fiscal years 1992-2004.<sup>11</sup> Those PTO fees, which were paid by the PTO’s users, could have permitted purchase of a modern IT infrastructure, permitted additional hiring of patent examiners and patent judges, and generally would have significantly reduced the patent backlog that hinders innovation and economic expansion, if Congress had not diverted those PTO fees to other non-patent-related uses.

The availability of funds within the PTO is thus critical in allowing new patent applications to be examined. Without the appropriate funds, fewer examiners can be hired and fewer resources are available to adequately train the examiners, thereby contributing to the increasing backlog. Figure 2 is a breakdown of the PTO costs in fiscal year 2009. A significant portion of the budget is used for personnel costs, which includes all funds associated with examiners. The uncertainty in the annual Congressional funding process makes it virtually impossible for the PTO to implement plans for long-term personnel and technology needs.

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<sup>9</sup> See Carter (2010), Ref. 3.

<sup>10</sup> Grossman, Marla. “Diversion of USPTO User Fees: A Tax on Innovation.” Institute for Policy Innovation. April 27, 2009. <[http://ipi.org/IPI/IPublications.nsf/PublicationLookupFullTextPDF/D1E21F10301948E2862575A90056D672/\\$File/PatentFeeDiversion.pdf?OpenElement](http://ipi.org/IPI/IPublications.nsf/PublicationLookupFullTextPDF/D1E21F10301948E2862575A90056D672/$File/PatentFeeDiversion.pdf?OpenElement)>

<sup>11</sup> National Academy of Public Administration. “U.S. Patent and Trademark Office: Transforming to Meet the Challenges of the 21st Century.” August 2005. <<http://www.napawash.org/pubs/pto8-25-05.pdf>>

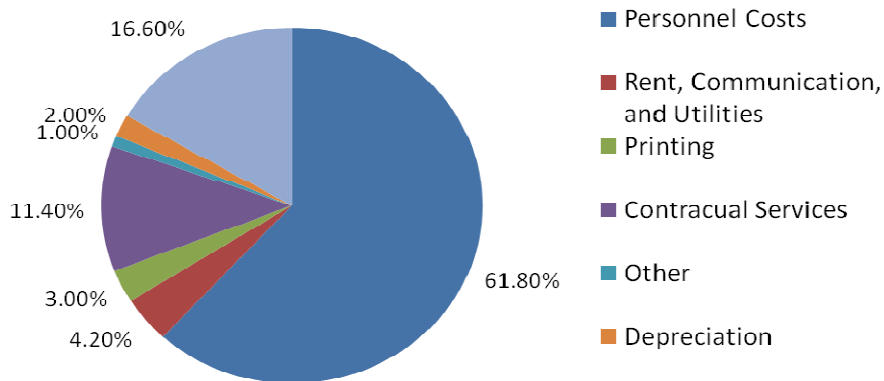


Figure 2: Breakdown of PTO costs. From PTO FY 2009 Annual Report.

### 3.2. Poor Examination Quality

Due to the challenges posed by Congress and within the PTO office, some patent applications may not receive the typical/expected examination before a Final Rejection is issued. The current incentive system for examiners, the increase in application backlog, and the lack of funding often prevent patent examiners from conducting a thorough evaluation of each application. In the years 2004-2009, an average of 1000 examiners were hired each year in an attempt to address the backlog (though the PTO had a hiring freeze in 2009). However, many training resources were still lacking.

#### 3.2.1. Allowance and Rejection Error Rates

A common criticism of the PTO is that it allows patents of “poor quality.” A more accurate portrayal is that the structure of the patent system permits poor patent examination to occur. Patent examination errors include both erroneously allowing applications to issue and erroneously rejecting applications. An erroneous allowance is granting a patent application that does not meet legal patentability requirements and an erroneous rejection is rejecting an application that does meet these requirements. The chart below illustrates the costs<sup>12</sup> to respective parties involved with erroneous allowances and erroneous rejections.

<i>Costs to:</i>	<b>Erroneous Allowances</b>	<b>Erroneous Rejections</b>
<b>Applicants</b>	➤ Licensing/litigation on invalid patents	➤ Need for RCEs/appeals ➤ Delay in obtaining patents
<b>USPTO</b>	➤ Using valuable resources ➤ Public ridicule	➤ Workload increases ➤ Using valuable resources
<b>Society</b>	➤ Doubting merits of U.S. patents	➤ Denied of private investments in patentable inventions ➤ Reduce incentive to file

<sup>12</sup>Katznelson, Ron. “Patent Reforms Must Focus on the U.S. Patent Office.” *Medical Innovation & Business*. Summer 2010. 2 (2), p. 78. <<http://works.bepress.com/cgi/viewcontent.cgi?article=1062&context=rkatznelson>>

### 3.3. Backlog

The backlog at the PTO has increased over the past decade. As alluded to before, the agency does not have sufficient guaranteed funding to hire enough examiners or to adequately train the examiners hired. Anecdotal information suggests that the PTO has drastically limited training of new examiners because of recently increased attrition among examiners in their first 6-12 months on the job. There are over 720,000 applications that have yet to be initially examined and roughly 1.2 million applications that are pending in the PTO; the average pendency<sup>13</sup> within the PTO is 35 months. The backlog adversely affects economic growth, such as by delaying companies from making investment in manufacturing and jobs until the level of patent protection becomes known. Several programs and incentives have been implemented in the PTO to achieve a more balanced examination and reduce the backlog. So far, however, the backlog and errors still exist.

### 3.4. The Need for Continued Prosecution

Continued prosecution based on an original application disclosure is used by one of the four types of applications summarized below.

Continuation application	allows applicant to pursue additional claims to an invention disclosed in a prior pending application
Divisional application	claims a distinct or independent invention described in a pending parent application
Continuation-in-part (CIP)	adds and claims subject matter not fully disclosed in the parent, but repeats substantial portion of the parent's specification
Request for Continued Examination (RCE)	request by an applicant for continued examination of claims amended after their Final Rejection

#### **3.4.1. Continuation Application**

Continuations are often required during the pendency of an application for revising the scope of protection in light of new information, claim construction issues, and product development and market experience that could not have been reasonably predicted or made during the prior application.<sup>14</sup>

Some argue that continuation applications can frequently be abused in allowing the applicant to observe marketplace developments and adjust the application accordingly – that such “late claiming” practice contributes to the backlog. However, the Federal Circuit ruled in *Kingsdown Medical Consultants v. Hollister* that the law allows for drafting claims written during the pendency of a parent application specifically to cover aspects of a competitor’s invention:

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<sup>13</sup> Time between filing and a final rejection or grant of a patent

<sup>14</sup> Katznelson, Ron. “Patent Continuations, Product Lifecycle Contraction and the Patent Scope Erosion.” Southern California Law Associations Intellectual Property Seminar. June 2007.  
<<http://works.bepress.com/cgi/viewcontent.cgi?article=1002&context=rkatznelson>>

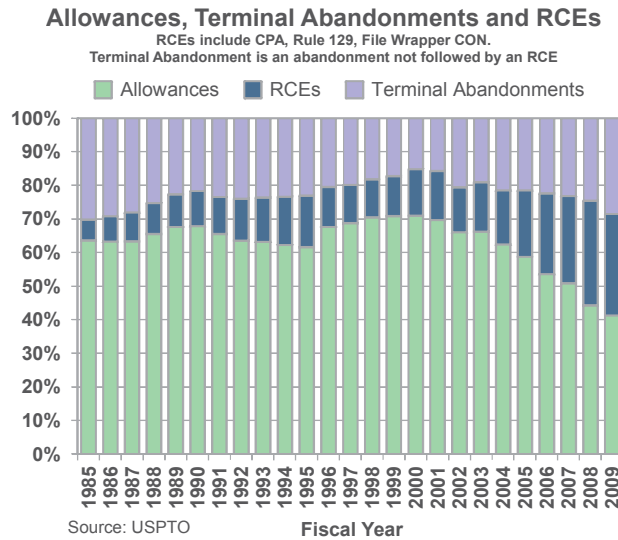
It should be made clear at the outset of the present discussion that there is nothing improper, illegal or inequitable in filing a patent application for the purpose of obtaining a right to exclude a known competitor's product from the market; nor is it in any manner improper to amend or insert claims intended to cover a competitor's product the applicant's attorney has learned about during the prosecution of a patent application. Any such amendment or insertion must comply with all statutes and regulations, of course, but, if it does, its genesis in the marketplace is simply irrelevant and cannot of itself evidence deceitful intent.<sup>15</sup>

This use of continuation applications indicates the applicant's need for more time to adjust accordingly to new developments respective to the invention.

### 3.4.2. Request for Continued Examination

With RCEs, the applicant pays an additional filing fee and continues the patent process. An RCE typically attempts to amend claims in order to overcome an examiner's final rejection based on new grounds or where an applicant and an examiner simply have not had an adequate exchange regarding the application. RCEs may also be filed to amend claims in view of newly discovered prior art that later came to the attention of the applicant during foreign counterpart application examination. Eventually, the "negotiation" succeeds and the application issues as a patent or the application is abandoned.

The number of RCEs filed in recent years has increased, as illustrated in Figure 3, during a period of time when the PTO seemingly discouraged allowance through the incentive system. The number of terminal abandonments did not increase as much as expected, but rather the number of RCEs increased because applicants elected to continue pursuing protection. These RCE filings appear to have contributed to the backlog since many of them merely delayed ultimate disposal. On the other hand, RCEs are a critical component of the patent process and permit patent applicants to obtain the patent protection they are entitled to.



**Figure 3: Allowances, Terminal Abandonments, and RCEs. From Ref. 04, Courtesy of the *Medical Innovation & Business Journal*.**

<sup>15</sup> *Medical Consultants, Ltd. v. Hollister Inc.* 863 F.2d 867, 873 (Fed. Cir. 1988).

Technology today spreads across a broad spectrum of knowledge areas. The two major types of technology with the most different patent needs appear to be electronics/software, and pharmaceuticals/biotechnology. Electronics innovations frequently build on short lifecycle technology and benefit from short patent pendency since this type of technology tends to become outdated quickly. Pharmaceuticals and other drug products, on the other hand, have longer development cycles and may benefit from delay in the patenting process while proposed products are tested for safety and efficacy by the Food and Drug Administration; this requires many clinical trials that take substantial time and defer market recovery of the innovation expenses. Pharmaceutical innovators may need to file a patent application earlier in the longer development cycle to attract venture capital<sup>16</sup> and retain a competitive priority date. Continuations allow for late-claiming, when needed, to help the applicant tailor claims to ultimately marketed products and realize defensible boundaries of the claimed invention.

A patent may not be issued if the invention has been disclosed in, anticipated by, or is obvious in view of, any prior art.<sup>17</sup> In general, prior art encompasses all information that has been made available to the public before the priority date of the patent. In the United States, a patent for an invention is not valid if that invention is known or used prior to the invention date. A printed publication will bar an applicant for a patent in the United States if it appears more than one year before the application date (“grace period”)<sup>18</sup> or before the date of the applicant’s invention, though prior non-public knowledge or use will not. Thus, claims need to be carefully drafted, and RCEs are beneficial in further allowing claims to be amended in view of newly discovered prior art, such as through market sources or foreign counterpart application examination.<sup>19</sup> Both the applicant and examiner are responsible for including relevant prior art they are aware of in the record, but only the examiner is obligated to search. This process also illustrates the potential need for extra time in examining applications and obtaining a patent.

### 3.5. Legislation

To obtain a patent, various fees such as the filing fee, search fee, and examination fee must be paid. In 2004, Congress passed the Consolidated Appropriations Act of 2004, specifically authorizing the PTO to charge separately for these user fee components. Before this Act, all fees had to be paid upon filing in one lump sum. Under this law, the PTO has the authority to allow for the fees to be paid separately.<sup>20</sup> The PTO is now not bound by a single rigid fee component when implementing new programs that call for flexibility in this area.

The allegations that Continuations and RCEs directly contributed to the backlog was believed by PTO officials especially after a noticeable rise in RCE filings. In January 2006, the PTO initiated rulemaking proceedings in an attempt to limit Continuations and RCE filings. The PTO issued the new rules in August 2007, with the stipulation that these rules would go into

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<sup>16</sup> Thomas, John. “Deferred Examination of Patent Applications: Implications for Innovation Policy.” Congressional Research Service. May 27, 2010.

<sup>17</sup> 35 U.S.C. §§ 102, 103.

<sup>18</sup> 35 U.S.C. § 102(b)

<sup>19</sup> Katznelson (2007), Ref. 14, p. 4.

<sup>20</sup> 35 U.S.C. § 41

effect on November 1, 2007. This rules package included provisions pertaining to continued examination filing, patent applications containing patentable indistinct claims, and examination claims in patent applications.<sup>21</sup> Critics of the proposed rules contended that the rules would make it harder for innovators to obtain patents. Suits were filed against the PTO and on October 31, 2007, the US District Court for the Eastern District of Virginia issued a preliminary injunction against the PTO in *Tafas vs. Dudas*, followed by a permanent injunction on April 1, 2008, stating that these rules were substantive in nature and were thus outside of the PTO's jurisdiction of regulating procedural rules: "The Office...may establish regulations, not inconsistent with law, which...shall govern the conduct of proceedings in the Office..."<sup>22</sup> Although the subsequent litigation history is important, it has been omitted as not being relevant to the discussion here. In October 2009, the PTO rescinded the claims and continuations rules package and withdrew its appeal to the Federal Circuit.

Separately, Congress has been discussing and trying to pass further patent legislation for the past three Congressional sessions. However, these bills would not directly address application times or examination quality within the PTO. Some argue that Congress should, instead, focus its energies on domestic patent pendency, perpetual fee diversion issues that hinder stability in PTO funding and operational planning, and patent quality before addressing other concerns.

As a result, a less comprehensive bill regarding fees was introduced on May 18, 2010 – the Patent and Trademark Office Funding Stabilization Act of 2010. This bill essentially gives the PTO greater authority over patent fees in order to recover costs.<sup>23</sup> The most important aspect of this Act is that Congress will no longer be able to divert funds from the PTO's revenue. This bill is currently pending in Congress.

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<sup>21</sup> LawUpdates.com, LLC. "Federal Circuit Upholds PTO's Rule-Making Authority in Final Rules Dispute." March 31, 2009. <[http://www.lawupdates.com/summary/federal\\_circuit\\_upholds\\_ptos\\_rule\\_making\\_authority\\_in\\_final\\_rules\\_dispute](http://www.lawupdates.com/summary/federal_circuit_upholds_ptos_rule_making_authority_in_final_rules_dispute)>

<sup>22</sup> 35 U.S.C. § 2(b)(2)(A)

<sup>23</sup> Congressional Research Service Summary. "H.R. 5322: Patent and Trademark Office Funding Stabilization Act of 2010." May 18, 2010. <<http://www.govtrack.us/congress/bill.xpd?bill=h111-5322&tab=summary>>

## 4. Deferred Examination

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Under current procedures at the PTO, all applications are reviewed basically in the order in which they are filed. A deferred examination system would permit examiners to focus energy on applications that applicants want reviewed first, instead of automatically reviewing all applications in order of filing. Applicants in a deferred examination system would have to submit a specific request for examination within a certain time period, along with the appropriate fees. Failure to submit such a request would result in the abandonment of the application.

### 4.1. Current Version of “Deferred Examination”

In current PTO regulations, there is an existing program to defer examination. Deferral of examination may be requested, though all fees must be paid upon filing, with the PTO retaining discretion to deny the request. This is an “opt-out” program, where examination goes forward unless the applicant requests deferral.<sup>24</sup> Because this is an opt-out program with the burden falling on the applicant to decide on deferral, to file a petition making a showing for a need for deferral, and to pay additional fees after filing, this option has been rarely used. Also, in this “opt-out” system, any requested delay is counted against any patent term adjustment that would accumulate.

### 4.2. Patent and Trademark Office Roundtable Discussion

In February 2009, the PTO held a roundtable to discuss introduction of an “opt-in” deferred examination program. Participants from across industry failed to reach a definitive consensus, although there was wide agreement that the subject merited further implementation study.

Support for deferred examination was grounded in the belief that the PTO could reduce some of its backlog. Some portion of applications that are examined and then withdrawn would no longer be examined in the first place because the applicant would have never filed a specific request for examination. Deferred examination would help eliminate the need to examine some of the applications that were going to be withdrawn. An opt-in examination system may also incentivize use of more focused claims since there is more time to adequately modify the claims before examination.

Opposition to the plan stemmed mainly from uncertainty in exactly how this system would operate, and from the perception that it would injure competition to have applications of competitors sitting unexamined without the certainty of issued claims. At the time, the PTO did not offer specifics on how the system would work. Many believed that this system would add another complication to the patent prosecution system without solving some of the PTO’s problems.

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<sup>24</sup> Linck, Nancy. “Recommendations to the PTO Regarding Deferred Examination.” May 29, 2009. <<http://www.uspto.gov/web/offices/pac/dapp/opla/comments/deferredcomments/nlinck.pdf>>

Questions at the roundtable focused on the different aspects of implementation. The details of such a procedure regarding the length of the deferment period, the impact on filing fees, whether applications would still be published after 18 months, whether competitors could request examination and how patent adjustment term would work<sup>25</sup> were debated at length. Since the roundtable, the PTO has not made any moves about an opt-in deferred examination with regard to these details. However, a variation was included in the three-track proposal issued in June 2010.

### 4.3. The Three Track Proposal

The three-track proposal, introduced in June 2010, considers some of the questions that the deferred examination roundtable had produced, among other things. This program would allow the applicant to choose between three tracks in patent examination timing<sup>26</sup>:

Track I: Prioritized examination (subject to an extra fee)

Track II: Traditional examination under the current procedures

Track III: For non-continuing applications first filed in the USPTO, an applicant-controlled delay for up to 30 months prior to docketing for examination

Besides the different processing tracks, included in this proposal is a new way to deal with applications filed in the United States that are based on a prior foreign-filed application; no action will be taken within the PTO until a copy of the international search report is received from the respective foreign office.<sup>27</sup> A search report contains the results of a patent office evaluating the relevant prior art against the claims of an application, which is used in examination. This method would increase the efficiency of the examination process by reducing and avoiding duplicate search efforts in the United States when a foreign patent office is conducting the first examination.

#### **4.3.3. Analysis: Track III**

Track III allows for an applicant-controlled 30-month queue prior to requesting examination. These applications still need to be published 18 months after filing like all other applications to avoid delays in notice to the public. After choosing this track, the applicant has up to thirty months from the filing date to request for examination and pay the examination fee. Those that do not request examination within the 30-month period will result in the abandonment of their application, thereby reducing the application backlog through no further PTO effort.

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<sup>25</sup> Osenga, Matt. "PTO Roundtable Finds Support for Deferred Examination." Inventive Step. February 17, 2009. <<http://inventivestep.net/2009/02/17/pto-roundtable-finds-support-for-deferred-examination/>>

<sup>26</sup> United States Patent and Trademark Office. Press Release 10-24: USPTO Proposes to Establish Three Patent Processing Tracks. June 3, 2010. <[http://www.uspto.gov/news/pr/2010/10\\_24.jsp](http://www.uspto.gov/news/pr/2010/10_24.jsp)>

<sup>27</sup> See United States Patent and Trademark Office (2010), Ref. 26.

#### 4.4. Foreign Versions of Deferred Examination

Other countries have implemented a deferred examination program for their patents, including Canada, Germany, Japan, the United Kingdom, and South Korea. Japan has a three-year deferral program with a 30 percent dropout rate.<sup>28</sup> Canada has a dropout rate of 35 percent and the Europe has a dropout rate of 10 percent.<sup>29</sup> Dropout refers to those patent applications that are abandoned during the deferral period. Reasons for drop out tend to include: applicants no longer think that their invention has commercial viability, and applicants learn of prior art or otherwise come to believe that the prospects for patentability are not favorable. The resources that would have been given to examining those applications before they dropped out can thus be devoted to examining other applications.

Figure 4 displays the examination rate at various national patent offices. Different trends and information can be drawn from the graph, however the most important comparison is the difference in dropout rate in the respective countries. The longer deferral period results in an overall reduction in applications to be examined.<sup>30</sup> Note that Japan used to have a seven-year deferral period but now uses a three-year deferral period.

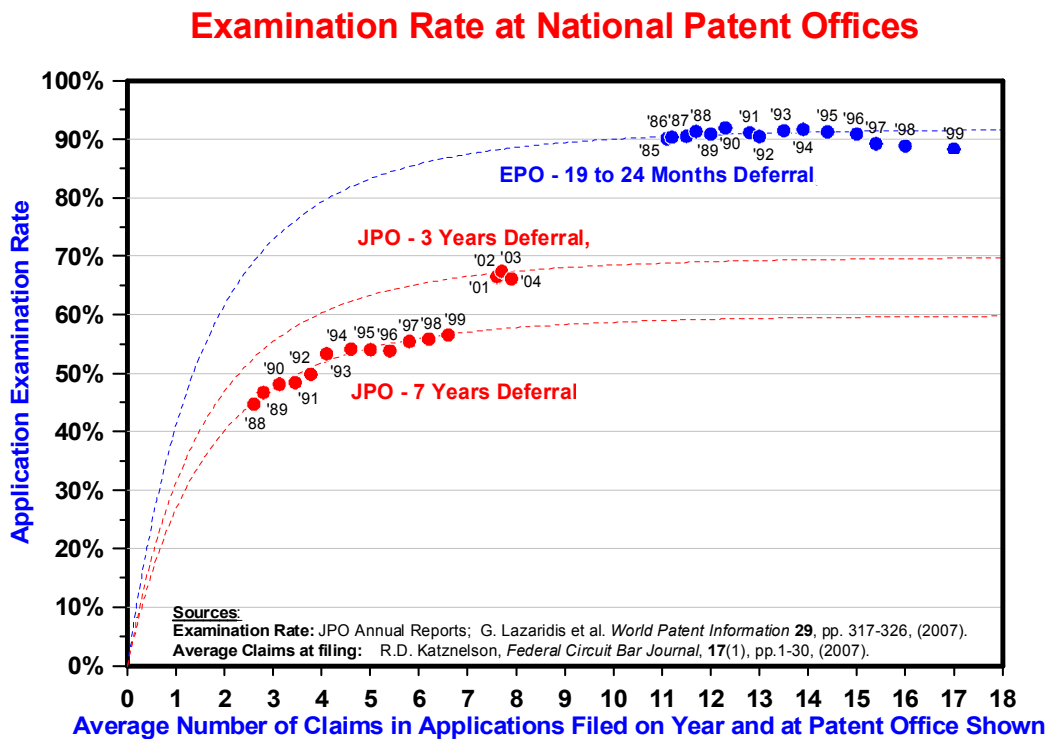


Figure 4: Examination Rate at National Patent Offices. From Reference 30.

Note: JPO (Japan Patent Office), EPO (European Patent Office)

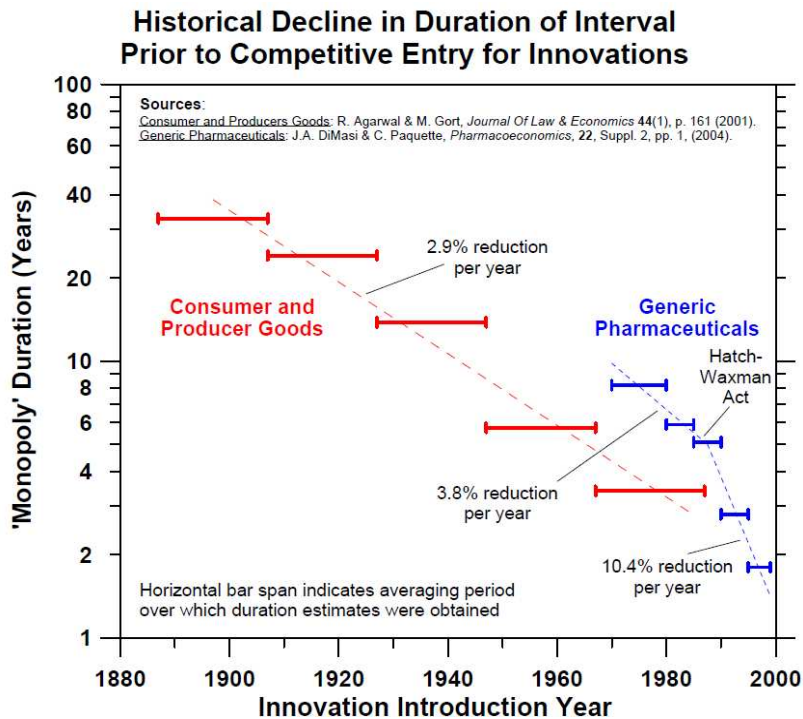
<sup>28</sup> Irimies, David. "Why the USPTO Should Adopt a Deferred Patent Examination System." 20, *DePul J. Art, Tech., & Intell. Prop.* <[http://works.bepress.com/cgi/viewcontent.cgi?article=1000&context=david\\_irimies](http://works.bepress.com/cgi/viewcontent.cgi?article=1000&context=david_irimies)>

<sup>29</sup> Rogan, James. "Keynote Remarks at the ABA/Intellectual Property Law Section IPL" Summer Conference. June 27, 2002.

<sup>30</sup> Katznelson, Ron. "Examination-On-Request-A Deferred Examination Proposal for the U.S. Patent Office." Comments Submitted to the USPTO. May 29, 2009. Appendix, pp. 9. <<http://works.bepress.com/cgi/viewcontent.cgi?article=1058&context=rkatznelson>>

## 4.5. Capitalizing on Shorter Lifetime Cycles

A growing trend with technology is the shortening product life-spans. Products in the marketplace are quickly replaced by updated technology at an ever growing rate. Figure 5 demonstrates the decline in a major component of product lifespan - the 'monopoly' duration. The red line presents general consumer and producer goods, and the blue line represents pharmaceuticals that often face generic pharmaceutical entry to the market prior to the expiration of the pioneer patent. Some suggest that this shortening product lifecycle trend and its related accelerated patent claim obsolescence is a major contributor to the growing need for filing new or amended claims in an ever increasing inflow of continuation applications<sup>31</sup> – causing increases in examination workload at the PTO. This *very same* trend is also responsible for a *growing* share of applications becoming obsolete within a few years of filing – the applications that would be dropped under a deferred examination system. Thus, employing such an examination system provides a self-regulating examination workload mitigation solution: the higher the rate of continuation filings – the higher the dropout rate of applications under a deferred examination system. It is hard to envision how the PTO would be able to address the growing examination burden associated with growing continuation filing due to the shortening product lifecycle without also taking advantage of the related claim obsolescence phenomenon by adopting a deferred examination system.<sup>32</sup>



**Figure 5: Historical Decline in Duration Interval Prior to Competitive Entry for Innovations, which indicates a decline in product lifecycle duration. From Reference 30.**

<sup>31</sup> Katznelson (2007), Ref. 14, pp. 21-34.

<sup>32</sup> Katznelson (2007), Ref. 14, p. 61.

## 5. Policy Recommendation

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To alleviate many of the problems within the PTO, the agency should utilize its procedural rulemaking authority to implement a deferred examination policy. The following policy does not require any statutory changes. Specifically, the policy should include:

- The applicant is allowed up to three years to request for examination, after which, the application will be abandoned if no requests have been made.
- This program will be separately implemented from the 2010 proposed three-track process.
- The applicant will pay the search, examination, and claim fees upon requesting the examination.
- Third parties who, can anonymously, request examination must pay the associated fees.
- There will be a no changes in patent term adjustment.
- Applications subject to deferral must be published within 18 months of filing.

To implement a deferred examination system, some logistics need to be addressed. For new applicants, there is the choice of the current status quo examination or deferred examination. Applicants who choose deferred examination, however, simply wait to file the request for examination, and if the request is never filed, then their application will be abandoned.

For current, pending applications filed before the effective date of the new system implementation, the applicant can choose to defer their application if there has been no first office action issued yet. This would be the most efficient implementation, by permitting deferral where precious examination resources have not yet been spent. For these applicants, a refund will be offered since the search, examination and claims fees will have already been paid; however, these fees would then be due again upon a request for examination.

## 6. Impacts of Policy Recommendation

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### 6.1. Motivations for Specifics in the Recommendation

#### *6.1.1 Deferral Period*

- The applicant is allowed up to three years to request for examination, after which, the application will be abandoned if no requests have been made.

Choosing an adequate maximum deferral time impacts the dropout rate, and in turn how much the backlog will be reduced. From Figure 4, a three-year deferral period in Japan results in roughly 30% of applications being dropped. When Japan had a seven-year deferral period the dropout rate of applications was roughly 40%. The difference in percent dropout is not that significant between the three and seven-year deferral periods, despite the much longer time period and even after taking into consideration that four more years of a 20 year patent term will have been used awaiting examination. A shorter deferral time than three years does not appear to provide enough benefit in the dropout rate, as can be seen from Europe's dropout rate in Figure 4.

#### *6.1.2. Separate Deferred Examination from the Three-Track Proposal*

- This program will be separately implemented from the 2010 proposed three-track process.

The three-track proposal includes a section on deferred examination that should be implemented separately. When a policy recommendation includes too many parts, passage is more difficult because of the likely opposition to all of the considered points. With the three-track proposal, Track I and the issue with foreign offices have left some details undefined. Track III, essentially a version of deferred examination, has merit and should alleviate many of the PTO's problems. The proposed Track III has a few differences from the proposed policy recommendation and has omitted some details of implementation. The proposed policy should be implemented first and separately from the three-track proposal.

#### *6.1.3. Fee Payment*

- The applicant will pay the search, examination, and claim fees upon requesting the examination.

With the existing deferred examination by petition program, these fees need to be paid initially at the time of filing, which forecloses on any incentives applicants may have in choosing to defer examination by petition. One substantial benefit to patent applicants of the proposed deferred examination system would be to defer the search, examination and claim fees until and only if request for examination is needed for a given patent application. Thus, those

applications that would have been abandoned instead of being examined will not incur this unnecessary examination fee cost on the part of the applicant.

#### ***6.1.4. Third Party Examination Request***

- Third parties who, can anonymously, request examination must pay the associated fees.

The concern that deferred examination will leave competitors and the public guessing about what claim scope may eventually be pursued can be alleviated by permitting a third party to anonymously initiate examination of a patent application of interest. Note that these requests would only occur after the 18 months publication requirement, after which third parties would even have knowledge of the patent application. This prevents an applicant from holding off examination of an application that others find in need of early patentability resolution because it may potentially cover their activities. Requiring third parties to pay the search, examination and claims fees will also act as a deterrent to frivolous requests for examination.

#### ***6.1.5. Patent Term Adjustment***

- There will be a no changes in patent term adjustment.

The patent term will be adjusted only if there are delays from the PTO. Some industries would like to have an extended patent term because of the deferred time. However, the applicant chose deferral for the benefit of better developing a technology and current patent law provides no mechanism to reward such practices with longer protection. Patent term adjustment will only be allowed under current law.

#### ***6.1.6. Patent Publication***

- Applications subject to deferral must be published within 18 months of filing

Applications still need to be published within 18 months of filing, as per the current procedure. This would ensure that deferral of examination would not also defer the patent public notice function. This publication requirement allows for competitors to adjust their own activities respectively and request examination of the subject application in the event that the applicant has decided to defer examination.

As per current procedure, the applicant can elect nonpublication of the application. This, however, will automatically deny any ability to defer examination.

### **6.2. Concerns**

- ▶ The delay in the patent being issued harms the public interest.

An application has the potential to be deferred for three years and then remain pending during the examination process for whatever it takes to issue the patent. The concern is, for example, that it will take five to seven years before the application is granted a patent. There are concerns that this will hinder competitors investing in the respective technology for that period for fear of being subject to infringement suits or exorbitant licensing fees. Some argue that this delay in public notice will thus harm innovation.

These concerns are not entirely warranted. Competitors have two options to find out the scope of the application much sooner: (i) at 18 months, the application will be published, which allows competitors to see the scope of the disclosed subject matter that might be claimed; (ii) competitors have the ability to initiate their own request for examination.

Currently, there already exists a way for “late claiming” in a Continuation. The public is already dealing with late claiming under current practice by reading the disclosure in an application and gauging the subject matter that might be claimed in a subsequent continuation.<sup>33</sup> The argument that deferred examination would provide a new avenue to delay public notice is false, since the current practice already exists. There are also options with deferred examination available to the competitor to have earlier examination, mentioned previously.

Furthermore, the public notice function must be considered as a public policy matter applicable to the *entire* base of all applications. For every application that is deferred, there is another application that moves up in the queue and issues earlier. The delay in public notice for deferred applications will result in an accelerated early public notice of another. In particular, all secret applications will move up in the queue and publish (issue) earlier because their examination would not be deferred. This will result in a net benefit in public notice which does not exist under the current system.<sup>34</sup>

- ▶ By allowing third parties to request examination before the applicant is ready for examination, poorer claims will result.

One benefit of deferred examination is giving the applicant more time to develop the invention and application. The concern, then, is that if third parties request examination before the applicant, the claims already submitted will have to be examined, which may be a set of poorly prepared claims due to time still needed to develop the invention. This is a situation no different from the current examination procedure where poor claims may have to be examined as well. Furthermore, applicants would continue to have the option of late claiming through Continuations.

- ▶ Third parties with adequate finances take advantage of requests for examination.

When third parties take advantage of being able to request examination, this essentially reverts the application back to the status quo procedure instead of being deferred. This may even help the applicant in some senses of not having to pay the search, examination and claims

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<sup>33</sup> See Katznelson (2009), Ref.30, Slide 27.

<sup>34</sup> See Katznelson (2009), Ref.30, Slides 24-25.

fees. In general, applicants are not *entitled* to the *right* of deferred examination. Thus, having an application requested earlier for examination than anticipated, merely reverts it back to the status quo and is not infringing on any rights.

### 6.3. Better Applications

Deferred examination would allow for better resource utilization by the PTO. Because deferred examination allows for more time to draft or cancel the claims, more focused and product-relevant claims will result. The applicant will have had time to further develop the invention or adjust the claims to appropriately define the invention. Extra time before examination also allows the applicant to be aware of more prior art that positively benefits tailoring the claims to their proper scope.

Additional prior art and better examination should also result from having references located in foreign patent office search reports submitted to the U.S. PTO. Applicants will often file applications in the U.S. PTO and other patent offices. Foreign patent offices conduct similar prior art searches that can be of benefit to our Office, since search reports might be issued elsewhere. These prior art searches would reduce some of the duplicative search effort that would otherwise occur in the U.S. PTO.

With the current system, the deadline of examination is not really in the applicant's control since the application must be filed to protect the priority date. At the time of examination, quite frequently, the applicant has not fully decided if an application is worth pursuing. Further tests and development of the invention may render a decision to ultimately not pursue a patent. With deferred examination, the PTO will not be wasting time on the applications that the applicant would have later deemed not worth a patent.

### 6.4. Reduce Backlog

Reducing the application backlog is a high priority for innovators, patent owners, and within the PTO. By one estimate, deferred examination is projected to produce a dropout rate of between 8 percent and 11 percent,<sup>35</sup> meaning that fewer applications will have to be examined, thus reducing the backlog. Even if applicants do not drop out their applications, they are likely to cancel or amend claims prior to requesting examination, thereby saving further examination work. Factoring U.S. parameters, it was recently estimated that up to 25% workload savings can be had with a three-year deferral program at the PTO.<sup>36</sup> As a result, non-deferred applications can also move faster through the system. With this opt-in deferred examination program in place, the PTO would also only examine applications and claims that were truly deemed important by the applicant.

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<sup>35</sup> See Katznelson (2009), Ref.30, Appendix, pp. 14.

<sup>36</sup> See Katznelson (2009), Ref. 30, Appendix, pp. 14-15.

### 6.4.1. Reduce Need for Continuations

The need for Continuations would be significantly decreased to the extent that applicants use Continuations as a “placeholder” for subsequent submission of new claims. RCEs are commonly used for the applicant and examiner to come to a consensus on the proper scope of the claims. With deferred examination, the obsolete claims would already be eliminated by the time of examination, thus reducing the need for a prolonged process that includes RCEs. Deferred examination would allow for the extended time period suitable for vetting the respective inventions. The defined deferred examination can also be used instead of the current de-facto-deferral system via Continuations.

### 6.5 Costs

Retaining and obtaining certain revenue is crucial to the PTO’s operations. By allowing the examination fee to be paid at the time of request instead of the time of filing, revenue for work done will not be lost – only deferred. Applications that need immediate examination will always be filed, thus allowing the examination fee to be received at the same time as present. The benefits of not having to examine applications that would be abandoned under the deferred examination program would save more resources and money than the loss of the examination fee.

The applicant would also be able to save on examination fees that would have had to be paid even if the application would have been abandoned later. Saving user fees allows for the applicant to reallocate these resources elsewhere. For applicants, here is a breakdown of the costs that could be deferred:

- Search Fee (Large Entity): \$540
- Examination Fee (Large Entity): \$220
- Average Excess Claim Fees (Independent and Total claims fees, averaged on all applications)<sup>37</sup>: \$440
- ➔ Total potential deferred: \$1,200

However, under any successful deferred examination system that implicates tens of thousands of applications per year, a significant shortfall of PTO fee revenue may ensue during the initial three years of the program. Deferring revenues of approximately \$1200 per application, which the PTO now collects upon filing, could mean that the PTO would have to receive bridge funding in excess of \$200M during the initial transient phase<sup>38</sup>. After the initial transient phase, however, the incoming revenue will stabilize with the significant benefit of a decreased backlog.

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<sup>37</sup> See Katznelson (2009), Ref. 30, slide 14.

<sup>38</sup> This estimate is based on a conservative assumption that 80,000 applications per year would be deferred for an average of two years, resulting in an annual deferral of \$100M per year until a steady state is reached. This does not include any additional funds required to cover a refund liability should the deferred examination program be extended to the existing backlog of over 720,000 applications pending first action.

Congress would have to appropriate these funds in addition to, and apart from, any appropriation now contemplated to cover PTO funding shortfall or the Patent and Trademark Office Funding Stabilization Act of 2010.

#### **6.6. Give the Applicant Control**

Ultimately, the applicant should have some control of the patenting process, given its role as the innovator and the one to fund PTO operations. This can be done without injuring the public interest, and in a way that could benefit the PTO's operations to help with the application pendency and backlog, through deferred examination. Applicants should have the option to choose the system that best fits their commercial needs for any given invention and provides time to improve on the claims and prior art presented before examination begins. Deferred examination would allow the applicant to better control timing of the patent prosecution within reasonable limits, without forcing applicants into examination by default.

#### **6.7. Flexibility for Industries**

Deferred Examination addresses one of the major alleged concerns that surround new technology: a "one-size-fits-all" patent process no longer works. As mentioned previously, some industries have drastically different patent needs. This system should greatly benefit pharmaceutical and biotech innovators by allowing the technology to fully develop before obtaining the final patent. At the same time, it would permit faster-moving industries with shorter product cycles, such as electronics and software, to request examination promptly if desired—and receive faster examination for the same fee currently imposed. Additionally, such faster-moving industries and others having interest, would also be able to request examination in a third party's patent application to ensure it gets examined promptly.

## 7. Conclusion

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Reform within the PTO is crucial in allowing for a more efficient patent process and accelerating the recovery of the American economy. The PTO backlog is one of the most prominent problems faced by the agency, and a program of deferred examination should greatly help alleviate this crisis. Deferred examination gives the applicant more control over a patent process that is most suited to the nature of the respective invention. Because of the extra time that deferred examination allows the applicants, more focused applications with better prior art searches and appropriately targeted claims will result. This will in turn lead to a faster examination process that will reduce the backlog, and also to various dropout applications that the PTO will no longer need to expend resources on examining. Continuations had been cited as a problem by the prior PTO administration due to their alleged contribution to the backlog, but in fact, increased use of Continuations are merely a symptom of the larger problems within the PTO. With deferred examination, the need for Continuations will decrease, further alleviating the percentage and number of Continuation filings.

Although the initial shortfall in revenue will be significant, the long term benefits of deferred examination are worth making the investment. After the three year transient phase, the PTO funds will stabilize. Congress has the power to alleviate this situation by providing the requisite supplemental appropriations and by ending fee diversion, which is in general a valuable investment in our innovative structure. Many of the specifics of deferred examination have been outlined in this paper along with the respective benefits. Significant improvement in patent pendency and the backlog due to a system of deferred examination will increase the confidence in the PTO and in our country's innovation.

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