

Before the  
United States Department of Commerce  
Patent and Trademark Office

In the Matter of  
Changes to Practice for Continuing Applications,  
Requests for Continued Examination Practice,  
and Applications Containing Patentably Indistinct Claims

Docket No. 2-5-P-066

Comments of the  
United States Federal Trade Commission

May 3, 2006

## I. Introduction and Background

On January 3, 2006, the United States Patent and Trademark Office (“PTO”) issued a statement of proposed rulemaking in which it proposed to revise certain patent rules of practice pertaining to continued examination practice, as promulgated in title 37 of the Code of Federal Regulations.<sup>1</sup> A continued examination filing may be a continuation application, a request for continued examination, or a continuation-in-part application.<sup>2</sup> For the sake of brevity, we refer to all three as “continuations.” The PTO’s proposed rules apply to all three types of continuations, and the distinctions between them are not significant to the discussion here. As discussed in this Comment, the Federal Trade Commission (“FTC”) supports the PTO’s proposed rules on continuations.

*Background.* Continuations may be filed following either the rejection or the allowance of claims. During the patent prosecution process, a patent examiner considers the claims and arguments presented by the applicant in deciding whether to allow or reject the claims of the patent application. Upon the second examination, the examiner may make a rejection “final.” The applicant has several options following this “final rejection,” including abandoning the application, appealing the rejection to the PTO’s Board of Patent Appeals and Interferences, or filing a continuation.<sup>3</sup>

By filing a continuation, the applicant obtains the examiner’s further consideration of the claims. Applicants may offer amended claims, new evidence, or new arguments supporting patentability in the continuation. The continuation receives the benefit of the earliest filing date in a string of continuations, meaning that public disclosures after that earliest filing date cannot

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<sup>1</sup> 71 Fed. Reg. 48-61 (2006). This Comment does not address other matters contained in the PTO’s statement of proposed rulemaking.

<sup>2</sup> A continuation application refers back to and receives the benefit of the filing date of an earlier-filed parent application, pursuant to 35 U.S.C. § 120. *See* 37 C.F.R. § 1.78. The Patent Act allows requests for continued examination of an application for which prosecution would otherwise be closed at 35 U.S.C. § 132(b). An application subject to continued examination retains the benefit of its earlier filing date. *See* 37 C.F.R. § 1.114. A continuation-in-part (CIP) application discloses a substantial portion of the subject matter disclosed in an earlier-filed parent application, and claims the benefit of the earlier filing date for that subject matter, pursuant to 35 U.S.C. § 120. In addition, a CIP application includes and may claim subject matter not disclosed in the parent application. The added subject matter receives the benefit of the later filing date of the CIP application. *See* Manual of Patent Examining Procedure § 201.08.

<sup>3</sup> *See* 37 C.F.R. §§ 1.113, 1.114, 41.31.

serve as prior art to threaten the validity of the claims.<sup>4</sup> Moreover, a patent applicant need not face a “final rejection” in order to file a continuation. He may also file after the examiner has allowed the claims, and the applicant expects those claims to issue. In that case, the continuation may be used to pursue additional patents having claims of varying or different scope than the allowed claims.<sup>5</sup>

Current PTO practice places no limits on the number of continuations that an applicant may pursue,<sup>6</sup> and, indeed, continuations are widely used. About 30 percent of the applications submitted to the PTO for examination during 2005 were continuations. That percentage translates to more than 125,000 continuations filed last year.<sup>7</sup> In its notice of proposed rulemaking, the PTO identifies several problems resulting from the current practice allowing unlimited continuations, including that the current practice: 1) undermines patent quality by not providing adequate incentives to ensure that all exchanges between an applicant and examiner are efficient and of high quality; 2) diverts significant patent examining resources from new applications, thereby contributing to the backlog of unexamined applications; 3) delays the final resolution of patentability, leaving the public uncertain as to which technology may be patented; and 4) allows applicants to maintain pending applications while awaiting developments in similar technology, and later amending claims to capture those developments.<sup>8</sup>

*Summary.* To address these concerns, the PTO’s proposed rules would allow each patent applicant to file one continuation as a matter of right, but would require that second and subsequent continuation filings be supported by a showing that the amendment, argument or evidence contained in the filing could not have been submitted earlier, during either the prosecution of the initial application or the first continuation. The PTO has requested comments in response to its proposed rule changes. As explained below, the FTC supports the proposal because it accommodates the legitimate uses of continuations, limits abuses that can harm the competitive process, and promotes the patent system’s ability to provide incentives to innovate by reducing pendency.

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<sup>4</sup> See *supra* note 2.

<sup>5</sup> See generally Mark A. Lemley and Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U.L. Rev. 63, 66-70 (2004) (describing patent prosecution practice using continuations).

<sup>6</sup> 71 Fed. Reg. at 48.

<sup>7</sup> *Id.* at 50.

<sup>8</sup> *Id.* at 48-50.

## II. Interest of the FTC

The Federal Trade Commission has a dual role: it is an enforcement agency, and it has a mandate to identify and study issues related to competition policy. The FTC recently conducted a study of the balance between competition and patent law and policy in response to the growing significance of patents in the knowledge-based economy and the increasing role of dynamic, innovation-based considerations involving patents in antitrust policy.<sup>9</sup> Competition and patents stand out among the federal policies that influence innovation.

Competition among firms can spur the invention of new or better products or more efficient processes. Firms may race to be the first to invent and patent an innovative technology. In some industries, firms can exploit first-mover advantages through innovation. Companies may invent lower-cost manufacturing processes, thereby increasing their profits and enhancing their ability to compete. Competition can prompt firms to identify consumers' unmet needs and develop new products or services to satisfy them.

Patent policy also can stimulate innovation. Economists recognize that, without patent protection, innovators that produce intellectual property may not be able to appropriate the full benefits of their innovation or prevent others from "free riding" on the innovators' efforts. Following the initial innovation, patent rights may make it easier for inventors to develop relationships with others to invest in the further development needed to commercialize the invention. Moreover, the public disclosure of scientific and technical information is part of the consideration that the inventor gives the public, and that disclosure can stimulate further scientific progress.<sup>10</sup>

For the study, the FTC and the Department of Justice held over 24 days of hearings during 2002, involving more than 300 panelists, including representatives from large and small business firms, the independent inventor community, leading patent and antitrust organizations, practitioners, scholars in economics and patent and antitrust law, and the PTO. In addition, the FTC received about 100 written submissions.

In October 2003, the FTC issued its report resulting from these hearings, *To Promote Innovation: The Proper Balance of Competition and Intellectual Property Law and Policy* (the FTC IP Report).<sup>11</sup> As the Report explains, both competition and patent policy can work together to foster innovation, but each policy requires a proper balance with the other to do so. Errors or

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<sup>9</sup> See *To Promote Innovation: The Proper Balance of Competition and Intellectual Property Law and Policy*, Ch. 2 at 3-12, available at <http://www.ftc.gov/opa/2003/10/ipreport.htm> [*hereinafter* FTC IP Rpt.].

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

systematic biases in how one policy's rules are interpreted and applied can harm the other policy's effectiveness. Although the FTC's Report recognizes that, for the most part, the patent system works well, many participants at the hearings expressed concerns that, in some ways, the patent system is out of balance with competition policy. In particular, hearing participants expressed concern about each of the areas that the PTO seeks to improve through the proposed regulations: patent quality, pendency, and abuse of the continuation process. The FTC applauds the PTO's efforts to address these concerns through the proposed rules.

### **III. The FTC Supports the Proposed Rules for Continuations.**

As the FTC IP Report recognizes, continuation practice serves many legitimate functions,<sup>12</sup> such as permitting patent applicants to amend claims in response to newly discovered prior art. Applicants and their attorneys may genuinely struggle to define an invention accurately through the sometimes arduous process of claim drafting. Continuation practice allows applicants additional opportunities to craft their claims in light of the examiner's evidence and arguments, which may lead to claims that more accurately recite the invention. In addition, new evidence supporting patentability, such as additional laboratory testing, may become available only after an examiner's final rejection of the claims and require presentation through a continuation. Any revisions to continuation practice must accommodate these legitimate functions. The proposed regulations do so by allowing one continuation as a matter of right, and subsequent continuations based on a showing that information in the filing could not have been submitted earlier. The allowance for second and subsequent continuations based on a proper showing will permit applicants to present arguments related to newly discovered prior art, newly acquired evidence, or similar circumstances, when necessary.

While accommodating the legitimate functions of continuations, the proposed rules also address the competitive problems associated with current, unlimited continuation practice. Panelists at the hearings underlying the FTC IP Report expressed concern about three problems either caused or exacerbated by current continuation practice: uncertainty, "hold-up," and pendency.<sup>13</sup>

#### *Uncertainty*

As the PTO comments recognize, and the FTC IP Report discusses, lengthy, multiple continuations undermine the notice function of patents. Although most patent applications and

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<sup>12</sup> *Id.*, Ch. 4 at 27-28, 29.

<sup>13</sup> To address such concerns, the FTC recommended the creation of prior user rights to protect a party from infringement allegations that rely on patent claims first introduced in a continuation application. Nonetheless, the FTC's Report recognized that other remedies, such as limitations on the filing of continuations, also could address those competitive concerns. *Id.*, Exec. Summ. at 18; Ch. 4 at 29-31.

their originally filed claims are published 18 months after filing,<sup>14</sup> a patent containing broader or significantly different claims than those published may eventually issue through repeated continuations that allow the submission of claim amendments. Moreover, by filing multiple continuations, an applicant can extend for years the prosecution period (that is, the time during which broader or significantly different claims may issue).<sup>15</sup> Thus, a competitor cannot predict with certainty from the written description published at 18 months what the patentee will ultimately claim. This limits a competitor's opportunity to anticipate and avoid potential exposure for patent infringement. The lengthy prosecution also undermines the public's ability to know in a timely manner whether technology is likely to be patented or freely available, thereby increasing the uncertainty that numerous panelists described as characteristic of the patent system.

Panelists identified numerous, negative effects of uncertainty on R&D investment and innovation. These included increased difficulty in business planning and directing R&D resources, heightened investment risk that hinders raising capital, and increased litigation.<sup>16</sup> Although uncertainty also stems from sources other than continuation practice, such as the unclear scope and validity of some patents, lessening the uncertainty caused by current continuation practice would reduce its negative effects on business investment and innovation. The FTC supports the PTO's proposed rules to decrease the uncertainty caused by lengthy, multiple continuations and to improve the notice function of patents by limiting the availability of multiple continuations.

### *Hold-Up*

The FTC IP Report identified a second problem caused by current continuation practice and related to uncertainty: the increased probability of a scenario that some panelists termed "hold-up." Several panelists expressed concern that the current continuation practice can be used in ways harmful to competition. They explained that some applicants keep continuations pending for extended periods, monitor development of the market, and then modify their claims to cover a competitor's product after the competitor has incurred sunk costs in the product's development and, perhaps, marketing. For example, a competitor may invest substantially in designing and developing a product and bringing it to market while multiple continuations are pending and before the patent issues. When the patent finally does issue, redesign might be

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<sup>14</sup> 35 U.S.C. § 122(b)(1). A PTO panelist indicated that 90% of current applications are so published. FTC IP Rpt., *supra* note 9, Ch. 4 at 27. Applications that are filed only domestically need not be made public. 35 U.S.C. § 122(b)(2)(B). The FTC recommended that the law be amended to require publication of all applications 18 months after filing. FTC IP Rpt., *supra* note 9, Exec. Summ. at 15-16.

<sup>15</sup> FTC IP Rpt., *supra* note 9, Ch. 4 at 27.

<sup>16</sup> *Id.*, Ch. 5 at 3-4.

prohibitively expensive, and the new patentee might be in a position to extract large royalties, which has been called “hold-up.”<sup>17</sup>

Unlimited continuation practice can facilitate this type of opportunistic behavior, which can disrupt competitive activity. The hold-up wastes inventive resources that a competitor could have redirected, had it fully known the scope of an applicant/patentee’s claims. It imposes redesign costs that might have been avoided if the competitor had had greater lead time. It fosters high royalties, inflated by a competitor’s exposure to operational disruption from injunctive relief after sunk investments have been made. It magnifies potential competitors’ risks. Like the uncertainty generated by unlimited continuation practice, hold-up wastes resources, raises costs and risks, and potentially deprives consumers of the benefits of innovation and competition.<sup>18</sup> Because limiting the availability of multiple continuations would decrease an applicant’s opportunities to draft claims to cover an already-developed product and, therefore, the probability of hold-up, the FTC supports the limitations proposed by the PTO.<sup>19</sup>

### *Pendency*

As the PTO states in its proposal, the backlog of unexamined patent applications lengthens the pendency of all applications, and thereby delays the issuance of deserving patents. Although the lengthy pendency of patent applications has long been a concern in the patent field,<sup>20</sup> the well-documented “unprecedented explosion” of patent applications filed in the PTO in recent years has caused the backlog to build and pendency to lengthen.<sup>21</sup> Several panelists at the hearings underlying the FTC IP Report, from a cross-section of industries, indicated that

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<sup>17</sup> *Id.*, Ch. 4 at 26-28.

<sup>18</sup> *Id.*, Ch. 4 at 28-29; Ch. 2 at 28-29; Ch. 3 at 40-41.

<sup>19</sup> Patent reform efforts have long focused on how to remedy the opportunistic broadening of claims through a continuation to capture competitors’ products. The 1967 President’s Commission on the Patent System determined that “it is desirable that claims never be broadened after publication,” but concluded that it might be impossible to enforce an all-inclusive prohibition. The President’s Commission recommended imposing time limits on continuing applications. Report of the President’s Commission on the Patent System, *reprinted in* To Promote the Progress of the Useful Arts, Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary, 90<sup>th</sup> Cong., 1<sup>st</sup> Sess. 26, 39 (1967).

<sup>20</sup> See FTC IP Rpt., *supra* note 9, Ch. 1 at 17 (discussing Report of the President’s Commission on the Patent System, *supra* note 19, which considered ways to shorten patent pendency).

<sup>21</sup> *Id.*, Ch. 5 at 4-5 (quoting former PTO Director, James Rogan).

current pendency periods are a significant problem.<sup>22</sup>

Lengthy pendency can diminish the patent system's ability to promote innovation, especially in industries facing fast technology evolution and short product life cycles. In industries such as computer hardware and software, "the pace of advancement has begun to challenge the ability of the patent office to process applications in a time frame that is functionally useful to the inventor."<sup>23</sup> In such fast-moving fields, patents granted years after filing may be of little use where product imitation occurs quickly, and entire product life cycles pass before patents can be issued.<sup>24</sup> Reducing the backlog of unexamined applications and decreasing the pendency of applications will promote the patent system's ability to incentivize innovation, especially in fast-moving industries. For that reason as well, the FTC supports the PTO's attempt to reduce the backlog through the proposed rules.

#### **IV. Conclusion**

The proposed rules both accommodate the legitimate functions of continuations and respond to the competitive concerns caused by multiple continuations. Current continuation practice is susceptible to opportunistic behavior that can disrupt competitive activity, as in the hold-up scenario. Moreover, multiple continuations that extend the prosecution period for years and undermine a competitor's ability to know in a timely manner what technology is protected significantly contribute to business uncertainty. That uncertainty negatively affects the patent system's ability to promote R&D investment and innovation. The proposed rules do much to limit that opportunistic behavior and uncertainty by preventing a string of continuations, and by moving applications toward final resolution more efficiently. For these reasons, the FTC urges the PTO to adopt its proposed rules governing continuation practice.

By direction of the Commission.

Donald S. Clark  
Secretary

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<sup>22</sup> *Id.*, Ch. 5 at 5.

<sup>23</sup> *Id.*, Ch. 1 at 34 (*quoting The Patent System and Modern Technology Needs: Meeting the Challenges of the 21<sup>st</sup> Century, Hearing Charter Before the Subcomm. on Technology of the House Comm. on Science, 104<sup>th</sup> Cong. (1996), available at <http://www.house.gov/science/patchrt.htm>*).

<sup>24</sup> *Id.*, Ch. 3 at 45.