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January 10, 2006

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## **INDUSTRY TRENDS**

Updated 1/10/06, 5:20PM MST, adds [Three IBM Initiatives](#)

### ***Analysis of U.S. Patents in 2005***

# U.S. Patents Decline

## ***Innovation at IBM, Intel Appears to Drop, But It Is Up at HP***

SCOTTSDALE, Jan 10 - IBM used to pride itself as the innovation leader among the largest multinational companies. And Big Blue is still the number one U.S. patent winner for the 13th straight year. But the number of patents issued to IBM in 2005 declined by over nine percent compared to the year before (down to 2,972), according to an analysis of the annual ranking by the U.S. Patent and Trademark Office report that was released today (Jan 10). Last year was the first since 2001 that the number of IBM patents dropped below 3,000.

Nor was just IBM's innovativeness down. The total number of patents issued in the U.S. declined even steeper (12%) compared to 2004, said IFI Patent Intelligence in a press release. It was the second year in a row that the country consumed more while inventing less. In 2004, the number of U.S. patents had dropped 2.7% from the year before.

The only U.S.-based multinational whose innovativeness is up was Hewlett-Packard. The number of patents registered to HP increased to 1,797 in 2005, from 1,775 in 2004.

HP was one of only three companies in the top 10 to show increases. The

other two were non-U.S. multinationals - the No. 2, Canon Kabushiki Kaisha, and No. 5 Samsung Electronics Co. Ltd. Intel, No. 7 on the top 10 list, had a 3.2% drop in the number of patents issued in 2005.

So it looks like America's innovation is going down the tubes? Not really, according to IFI Patent Intelligence. It is more a case of the U.S. patent bureaucracy going up.

"The overall number of patent applications is actually rising," said Darlene Slaughter, the IFI Patent Intelligence GM, in a press release. "This leads us to believe that we're not experiencing a real crisis of innovation but rather an enormous backlog of applications being processed."

Well, that's one take on it. Another is that a rise in the number of applications could indicate an increase in wishful thinking rather than real innovation?

But assuming that the IFI explanation is right, isn't technology supposed to increase efficiencies and speed up processes? Guess not at the U.S. patent office. Chalk this government agency up as another opportunity for IT services companies, perhaps led by IBM and HP? ☺ Their R&D departments are sure to cheer them on.

### **Three IBM Initiatives Stress Quality Over Quantity**

No sooner did the U.S. Patent Office release its 2005 data, IBM issued a press release outlining three industry-wide initiatives aimed at increasing quality over quantity of patents.

"IBM believes that patents should be granted only for ideas that embody genuine scientific progress and technological innovation," said Dr. John E. Kelly III, IBM senior vice president of Technology and Intellectual Property, in a statement. "Raising the quality of patents will encourage continued investment in research and development by individual inventors, small businesses, corporations and academic institutions while helping to prevent over-protection that works against innovation and the public interest."

The three initiatives are:

- **Open Patent Review** – a program that seeks to establish an open, collaborative community review within the patenting process to improve the quality of patent examination. Professor Beth Noveck of New York Law School will lead a series of workshops on the subject.

- **Open Source Software as Prior Art** – a project that will establish open source software – with its millions of lines of publicly available computer source code contributed by thousands of programmers – as potential prior art against patent applications. OSDL, IBM, Novell, Red Hat and VA Software's SourceForge.net will develop a system that stores source code in an electronically searchable format, satisfying legal requirements to qualify as prior art.
- **Patent Quality Index** – an initiative that will create a unified, numeric index to assess the quality of patents and patent applications. The effort will be directed by Professor R. Polk Wagner of the University of Pennsylvania with support from IBM and others and will be an open, public resource for the patent system.

We titled our last year's update to our five-year IBM forecast "[Quality over Quantity](#)" (Mar 2005). The comment was primarily motivated by the beneficial impact on IBM profit margins we expected from the sale of IBM PC business to China's Lenovo.

Now we can see the same theme applying to IBM's approach to innovation. Even though the company still leads the industry's R&D in a quantitative sense, too, Big Blue is now putting more emphasis on quality of patents, and it is taking the lead position in the industry in this direction.

It should surprise no one that the companies that believe in openness, such as Sun and the leading Linux proponents, were the first ones to join in. Sooner or later, others are bound to follow.

*Happy bargain hunting!*

*Bob Djurdjevic*




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Volume XXII, Annex Newsflash 2006-03  
January 10, 2006

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