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April 28, 2006
Mail Stop Comments - Patents
Commissioner for Patents
United States Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313-1450

Re: Notice of Proposed Rulemaking,
"Changes to Practice the Examination of Claims in Patent Cases"
71 Fed. Reg. 61 (January 3, 2006)
Docket No. 2005-P-067

Dear Mr. Commissioner:

In the above Federal Register Notice dated January 3, 2006, the U.S. Patent and Trademark Office requested public comment regarding the above Notice of Proposed Rulemaking. This letter presents the comments of the Pennsylvania Intellectual Property Forum ("Pennsylvania IP Forum"). The Pennsylvania IP Forum is an organization of patent practitioners and intellectual property attorneys located principally in Southeastern Pennsylvania. While some of us represent large entities, all of us represent individual inventors and small entities. Large entities already have significant advocates in Washington. Our purpose in making these comments is to provide a voice to individual inventors and small entities that otherwise would not be heard.

The Pennsylvania IP Forum appreciates the opportunity to offer comments on the rule and practice changes proposed by the Office. We believe that the proposed changes would adversely affect the patent prosecution process in terms of time and cost, particularly for small business. We are concerned by the continuing shift in burden during prosecution from the Office to applicants having limited resources. We are specifically concerned that the proposed rules will have unintended consequences to small business.

The value of small business entities to the US economy cannot be overstated. The publication entitled "A Guide for Governmental Agencies: How to Comply with the Regulatory Flexibility Act" ("RFA Guide"), promulgated by the Small Business Administration, sets forth Federal agency data on small businesses. In its description of how important small businesses are to the US economy, the RFA Guide indicates that small businesses represent more than 99.7 percent of all

employers. Moreover, on p.99 of the RFA Guide, the research set forth indicates that "small firms produce 13 to 14 times more patents per employee than large patenting firms. Those patents are twice as likely as large firm patents to be among the one (1) percent most cited." It is thus a matter of public record and, indeed, a finding of the Federal government, that the patent activities of our country's small business entities are crucial to the U.S. economy.

INCORPORATION OF COMMENTS BY REFERENCE

The Pennsylvania IP Forum agrees with and adopts as its own the comments of Robert A. Vanderhye. Mr. Vanderhye's comments are incorporated herein by reference and a copy of those comments is enclosed as Attachment 1.

ADDITIONAL COMMENTS RELATING TO THE REGULATORY FLEXIBILITY ACT

a. The Office has failed to comply with the Regulatory Flexibility Act

The PTO has failed to adequately consider the effect of the above pending rulemaking on the small business community as required by the Regulatory Flexibility Act, 5 U.S.C. §§601-612 (hereinafter "RFA"). The rulemaking package in question is crucial to small businesses and a full regulatory flexibility analysis is required. We request that you direct the PTO staff to fully comply with the requirements of the RFA, and that the rulemaking package be republished for public comment after that compliance and prior to final promulgation. We believe that if the PTO fails to perform a full regulatory analysis in compliance with the terms of the RFA, the rulemaking package will be invalid and vulnerable to challenge under 5 U.S.C. §611(a)(4).

The Small Business Administration ("SBA") has determined that the PTO should conduct a full RFA analysis of the pending rulemaking. See enclosed Attachment 2, a letter of April 27, 2006 to Undersecretary Jon W. Dudas of the PTO from Thomas M. Sullivan, Chief Counsel for Advocacy and Carrol L. Barnes, Assistant Chief Counsel for Advocacy of the SBA.

b. The RFA requires the PTO to adequately analyze the effect of rulemakings on small business

When an agency issues a rulemaking proposal, the RFA requires the agency to "prepare and make available for public comment an initial regulatory flexibility analysis (IRFA)" which will "describe the impact of the proposed rule on small entities." 5 U.S.C. §603(a); Northwest Mining Association v. Babbitt, 5 F. Supp.2d 9 (D.D.C. 1998). Before a proposed regulation is published in the Federal

Register, the RFA requires the promulgating agency to identify the entities to be regulated by size and number, estimate the economic impact by size category and determine which size categories will be impacted. The promulgating agency must then ask the following question, "Will the rule changes have a significant economic impact on a substantial number of small entities?" 5 U.S.C. §605(b). If the answer to that query is positive, an initial regulatory flexibility analysis must be performed. If the answer to this question is negative, the head of the agency may then certify that the rule will not have a significant impact. Such a certification must include a statement providing the factual basis for this determination.

The Office of Advocacy of the Small Business Administration is required by Section 612 of the RFA to monitor agency compliance and disseminated the RFA Guide to inform agency action. The RFA Guide provides that the statement accompanying a certification of no impact, at a minimum, must include (a) a description of the affected entities, and (b) the facts that clearly justify the certification that there will be no significant impact. The agency's reasoning and assumptions underlying the certification must be explicit in order to obtain public comment and thus, receive information that would be used to re-evaluate the certification. See Guide, at pp. 8-9. The decision to certify must be based upon a sound threshold analysis to support a finding of no significant impact and the record an agency builds to support a decision to certify is subject to judicial review under 5 U.S.C. §611(a).

c. The PTO certifications do not meet the RFA requirements because proper credible facts to support the certifications are lacking.

The PTO failed to provide facts that clearly justify the certification of no significant impact. The proposed rule change seeks to revise the rules of practice relating to examination of claims to an initial examination of "representative" claims, which would include all independent claims and those dependent claims which are expressly designated by the applicant for initial examination. If greater than 10 claims are submitted for initial examination the proposed rule change will require, among other things, an examination support document that "covers" each independent and dependent claim designated for initial examination. This burden-shifting tactic creates a substantial burden, both financially and in terms of time, upon the applicant and will have a significant economic impact especially upon those applicants who can least afford it- small business entities as well as individual inventors.

In support of the statement that "(t)he changes proposed in this notice will not affect a substantial number of small entities", the PTO proposes several narrow analyses which either compare "apples to oranges" or contain antiquated

information for which no support can be obtained. The PTO states that only 1.3 percent of small entity non-provisional applications filed since January 1, 2005, contain more than *ten independent claims*. 71 Fed. Reg. 66. However, the proposed rule provides that an examination support document MUST be submitted if more than ten claims **total** are designated for initial examination. The PTO assertion does not support the conclusion for which it is cited.

The PTO states that there are no fees associated with the proposed rule change and then indicates that, according to an economic survey conducted by the AIPLA and reported in 2003, a "patent novelty search, analysis and opinion was $2,500.00." The PTO assertion is a *non sequitur*. There is no indication that a "patent novelty search, analysis and opinion" would satisfy the requirements of proposed §1.261. There is also no indication that a showing necessary to satisfy proposed §1.261 could be purchased for $2,500.00. The PTO assertion does not support the conclusion for which it is cited.

It is not only the realistic cost of preparing such an examination support document which will be a burden to small entities, but also the time spent doing so. For a small entity, time is a valuable resource. The time spent preparing such a document could be spent on operating its business or furthering the innovative process. The magnitude of the loss on a substantial number of small entities could be very significant indeed.

d. The proposed rulemaking does not comply with the RFA because the PTO does not evaluate alternatives.

Under 5 U.S.C. §603(c), the keystone of an initial regulatory flexibility analysis is the description of any significant alternatives to the proposed rule that accomplish the stated objectives and that minimize the rule's economic impact on small entities. There are no viable alternatives suggested within this rulemaking to provide regulatory relief to small entities as required.

There are several alternatives that the PTO should evaluate and that would efficiently and effectively achieve the PTO's stated goals without unduly burdening small entities or stifling innovation. The first alternative is to exempt small entities from the regulation. Since, as the PTO alleges, such a small percentage of applications by small entity applicants will be affected, one manner in which to avoid the further scrutiny under the RFA is to exempt small entity applicants from compliance.

Another alternative not evaluated by the PTO is to limit the applicability of the proposed change to patent applications containing *ten independent* claims,

since only 1.3 percent of small entity non-provisional applications would be affected. Both of these suggestions should be considered as alternatives to reduce the impact of the proposed rule changes on small entities.

e. The PTO should conduct the required analyses of impact on small business and republish the proposed regulations for comment.

In making public comment to the proposed rulemaking, the public is entitled to review any and all credible information the PTO relied upon in making its decision to certify that the proposed rule changes will not have a significant effect under the RFA. The PTO has presented no such credible information in the proposed rulemaking. The PTO also has provided us with no such credible information in response to a Freedom of Information Act request from one of our members. We are left to infer that no such credible information exists.

We believe that the proposed rule change will have a significant impact on a substantial number of small entities both in terms of out of pocket costs as well as in valuable time. The PTO should perform a full regulatory flexibility analysis and should republish for public comment the proposed regulation, including the regulatory flexibility analysis. If the PTO does not comply with these requirements of the RFA, the regulation packages will not be effectively promulgated and will be vulnerable to challenge under 5 U.S.C. §611.

The members of the Pennsylvania IP Forum appreciate the opportunity to comment on the proposed rules and would be pleased to further assist the Office in any manner necessary to consideration of the issues discussed above.

Very truly yours,

Robert J. Yarbrough
PTO Reg. No. 42,241
Chairman,
Pennsylvania Intellectual Property Forum

The following members of the Pennsylvania Intellectual Property Forum concur in the foregoing comments:

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Arnold W. Winter, Esquire, PA Atty. ID No. 62,347

From: Bob Vanderhye [ravar@nixonvan.com]
Sent: Saturday, January 21, 2006 12:03 PM
To: AB94Comments
Subject: Comments of Robert Vanderhye on Proposed Rules

The attached document in Word format comprises my comments on the proposed rules changes, solicited by the January 3, 2006 publication in the Federal Register, Volume 71, No. 1. Please advise if you need the coments in a different form.

ATTACHMENT 1

Comments of Robert A. Vanderhye to Proposed Rules of the Patent & Trademark Office regarding "Changes to Practice for the Examination of Claims in Patent Applications"; RIN 0651-AB94 [Docket No. 2005-P-067]

These comments are made by Robert A. Vanderhye, individually, as a former patent examiner [1968-1973], as a registered patent attorney [Reg. #27,076] for more than 30 years, and as an independent inventor [14 issued or pending patents]. They are not made on behalf of, and do not necessarily reflect the views of, my former law firm, Nixon & Vanderhye P. C.

Summary of Comments:

(1) The justification provided for the changes proposed are specious, and will not result in a "more thorough and reliable examination" but rather, at best, a piecemeal and less reliable examination.

(2) The rule changes proposed do not spell out if changes will be made to the Final Rejection policy, and without clarification of that policy may be grossly unfair.

(3) The proposal to make the changes retroactive will result in enormously increased expenses or prejudice to applicants, disproportionately falling on small entities, without commensurate benefit and should be scraped or a general procedure set forth.

(4) The PTO does not have authority under the rule making provisions of 35 USC §2(b)(2) to make the proposed changes.

(5) The rule changes should not be implemented. If they are implemented, they need substantial revision and clarification.

Detailed Comments:

(1) The justification provided for the changes proposed are specious, and will not result in a "more thorough and reliable examination" but rather, at best, a piecemeal and less reliable examination.

It is stated, without support or explanation, that the changes proposed will allow the PTO to do a better, more thorough and reliable examination since the number of claims receiving initial examination will be at a level which can be more effectively and efficiently evaluated by an examiner. Based upon my experience as an examiner, prosecuting attorney, and litigator, this is wrong. Rather, in the best case scenario, the result will be a piecemeal, less reliable examination, or increased effort and time by examiners to do the same job they now do. In the worst case scenario there will be total chaos.

Firstly, by reading and searching all of the claims, the examiner gets the best idea of the invention, and what areas should be searched. In fact MPEP 904.02 says that an effective search must take into account everything that is already claimed in all claims, plus anticipate what might be claimed in the future. Something in an unexamined claim might trigger in the examiner's mind a search area that he/she would not otherwise think of, and one that ultimately turns out to be important for a thorough examination [this happened to me MANY times when I was an examiner because I reviewed and searched all of the claims, following MPEP 904.02, and I'm sure it happens to many present

examiners, especially those working in broad art areas]. In any event, the search of the 10 examined claims will be done with less information – and therefore cannot be as thorough – as one done with all of the claims in mind.

Secondly, regardless of the situation in the preceding paragraph, for a proper examination of an application, the search done must be commensurate to what the applicant regards as his/her invention. The scope of the invention is set forth in all of the claims [35 USC §112], not just in some of them. In a typical application having 3 independent claims and 17 dependent claims, a properly prepared case will use all of the claims to set forth various levels of the invention, and all features which are considered important at the time of filing. Unless an examiner reviews all of these claims, and conducts a search based upon all of these claims, the search will either be incomplete, or piecemeal. Consider the following common scenarios that will occur in many (likely most) typical cases with 3 independent and 17 dependent claims:

-In scenario (a), the examiner finds that the 10 claims examined are unpatentable over art not known to the applicant, but located in the search. However, in three of the 10 dependent claims ["claims 11, 12 & 13"] not examined are features clearly not shown by the art cited. The applicant amends the three independent claims to include the features of dependent claims 11-13, respectively. The examiner will now do one of two things. Issue the case without a further search, meaning that the search is incomplete and the examination has been less thorough and less reliable; or conduct a new search for the features of claims 11-13. If she/he does the latter, that means that the search was piecemeal, much work is duplicated, and a significant amount of the examiner's time is wasted. Thus, the examination is either ineffective or inefficient.

If the examiner does another search, and cites and applies new references, does he/she make the second action final? If she/he does, that is totally unfair to the applicant (discussed further in (2) below) since the applicant is not adding a feature not in the original claims, but rather just in claims that the examiner has not examined. If he/she does not make the action final, this simply prolongs the examination of the case, causing further expense to the applicant, further work at the PTO, delayed time of when the patent issues (or even becomes available to the public if a non-publication request has been filed), and all the other adverse consequences associated with delay.

-In scenario (b), the examiner applies art that he/she feels rejects the 10 claims examined, however based upon argument alone from the applicant after first action reconsiders and allows the case. Does he/she then search the 10 claims not examined? If she/he does, then there is the same piecemeal waste of time set forth above. If he/she doesn't, then the examination is clearly not thorough with respect to the non-examined claims.

-Scenario (c) is the same as the last part of (b); but then several years after issuance of the patent, the invention turns out to be commercially significant, although it then turns out that a feature of one of the non-searched claims is the most important. An infringer locates prior art unavailable to the examiner that invalidates the independent claim from which the significant non-searched claim depends. It is a close question as to whether the art shows the subject matter of the non-searched claim. The infringer argues that the presumption of validity should not apply to the non-searched claim because the PTO's policy was to never search that claim and it was only allowed because the claim from which it depends was erroneously allowed. Further, the infringer argues that the

applicant committed inequitable conduct by not designating the non-searched claim as one of the claims that should be searched. Regardless of the ultimate resolution by the Court, the examination is thus revealed to have been anything but "better", "more thorough", "more reliable", "more effective" or "more efficient" than it was before the new rules.

-In scenario (d), the examiner does not allow any of the 10 examined claims. The applicant is sure he/she is entitled to prevail and appeals to the Board. Does the Board only consider the 10 examined claims, or also the 10 claims that the Examiner did not act on? If the Board does not look at the 10 non-examined claims, what happens to those claims after the Board's decision? Say the Board reverses the rejections of two independent claims, but affirms the rejection of the third. What happens to the non-examined claims dependent on the rejected independent claim? Do they never get an examination, so that the applicant never gets what he/she paid for? What if the Board affirms all of the rejections? Do the 10 non-examined claims never get examined without the filing of a continuation, so that again the applicant never gets what he/she paid for?

-In any of situations (b)-(d) assume that the applicant pays the additional fee for one extra dependent claim, so that there are 3 independent and 18 dependent claims. In many scenarios, the applicant never gets any benefit for paying that additional fee, because that 18th dependent claim is never examined.

Thirdly, if the case is otherwise in condition for allowance and the examiner reviews the remaining claims and suddenly realizes he/she should have searched another area, does she/he ignore that and thereby provide a lower quality product, or then do a further search? If the further search is done, the total search time will be greater than if the correct search was done originally since the Examiner will have to reacquaint himself/herself with the case. In any event the examination will be less effective and/or less efficient.

(2) The rule changes proposed do not spell out if changes will be made to the Final Rejection policy, and without clarification of that policy may be grossly unfair

The consistent policy of the PTO since before I became an examiner (1968) was not to make the second action Final if the claims were amended to include a feature present in the claims originally filed [MPEP706.07(a)]. The new proposed rules do not set forth how or if this policy will be affected. If the policy is interpreted to mean that even if a feature of a non-examined, though originally present, claim is added the second ction is made Final, what has the applicant gotten for paying his/her original filing fee, compared to when she/he gets now? MUCH LESS. Thus the proposed new rules will result in much poorer service, much poorer results, and much more expense for an applicant, and will result in the filing of continuation applications.

At the same time, however, the PTO in another proposed rule change is trying to limit the number of continuation applications because it is said that continuations limit the efficiency of the PTO and work against the public's interest. However, now continuations might be the only way that an applicant can get a real examination of the claims she/he originally submitted since those original claims will now be Finally rejected so that no further changes can be made, even if only small changes would result in allowance.

If the PTO does not clarify that the Final Rejection policy is not changed by the new rules (so that if the limitations of an originally present but non-examined claim are added to an examined claim no Final Rejection can be given) then the new rules will be arbitrary, capricious, and clearly subject to successful challenge in Court.

(3) The proposal to make the changes retroactive will result in enormously increased expenses and prejudice to applicants, disproportionately falling on small entities, without commensurate benefit and therefore should be scraped or a general procedure set forth

The proposal to make the new rules retroactive [that is applicable to all cases on file when they take effect, regardless of the date the application was filed] will result in great inefficiency and/or prejudice. There are literally hundreds of thousands of applications, many by small entities including *pro se* applicants, that will be pending at the time the new rules are adopted (if they are) that did not have an examined-claims designation. This means that every attorney or *pro* se applicant (assuming any *pro* se applicant knows to do so, which is an erroneous assumption) will have to go through every file, make an evaluation he/she has never before made, and file an additional paper in the PTO. If this review is not done immediately, significant prejudice will result, with only independent claims examined. Immediate review will not be possible for many applicants, especially those in other countries, since the attorneys may have to deal through 2 or more parties before reaching the ultimate party to make the decision regarding which claims will be examined. Regardless of whether immediate review is conducted, the result will be significant additional expense to all applicants.

Because of the expense, prejudice, and other problems associated with the proposed *ex post facto* approach, the PTO should NOT make the new rules retroactive if they are adopted. However, if the PTO is for some reason -- not clear from the Federal Register submission -- insistent upon making the new rules retroactive, then some procedure needs to be set forth to minimize its adverse effects.

The only clear way to minimize the adverse effects of retroactive application of the new rules is to establish a procedure regarding which dependent claims are to be examined in a case that was filed before the rules took effect, so that in every case having at least 10 claims, 10 claims will be examined.

I suggest that the following procedure [in the normal situation where there are three independent and 17 dependent claims]: The first three claims dependent on the first independent claim, and the first two claims dependent on each of the second and third independent claims, will be examined. If any independent claim does not have two claims dependent upon it, then the claims dependent upon the first independent claim that has enough dependent claims to reach 7 dependent claims will have those claims examined. For example if claims 1, 3, and 10 are dependent, with 2 dependent upon 1, 4-9 dependent on 3, and 11-20 dependent on 10, then claims 1, 2, 3-7, and 10-12 will be examined. As another example, if claims 1, 10 and 20 are independent with 2-9 dependent on 1 and 11-19 on 10, then claims 1-6, 10-12 and 20 would be examined.

For cases where more than three independent claims are provided, if possible the first dependent claim on each independent claim will be examined, and if 10 is not yet

reached, then as many claims dependent on the first independent claim as necessary will be examined until 10 is reached.

Of course if an applicant wanted to submit an examined-claim designation that was contrary to this, she/he could – but he/she would still receive as complete an examination as possible even if this was not timely possible, or overlooked.

(4) The PTO does not have authority under the rule making provisions of 35 USC §2(b)(2) to make the proposed changes

Nowhere does the proposed rulemaking set forth a clear statutory basis for the changes suggested. In fact, no statutory basis does exist. The authority to issue regulations under 35 USC §2(b)(2) is only regulations "not inconsistent with law". The proposed rules are "inconsistent with law", both statutory law and case law.

In 35 USC §41(d)(1)(A) it states "The Director shall charge a fee for the search of each application for patent...". Under 35 USC §§111, 112, an application includes a specification, drawing and oath. The specification "shall conclude with one or more claims...claiming the subject matter which the applicant regards as his invention", and "A claim may be written in independent or....in dependent or multiple dependent form". Under 35 USC §131 "The Director shall cause an examination to be made of the application and the alleged new invention". Because the "application" and the "invention" are searched and examined by the PTO, under 35 USC §282 "Each claim of a patent...shall be presumed valid independent of the validity of other claims; dependent...claims shall be presumed valid even though dependent upon an invalid claim".

Nowhere in this statutory framework does it say that the Director shall be caused to be searched or examined "part of the application" or "less than the whole invention". Under 35 USC §112, the "invention" includes ALL of the claims.

Saying that the initially non-searched and examined claims will be examined once the case is otherwise in condition for allowance is totally unrealistic. What about the numerous situations where not all of the independent claims are allowed, then when does the examiner ever examine them [see the scenarios set forth in section (2) above]?

It is also no answer to say that an applicant can do the PTO's work by submitting "an examination support document" which requires the applicant to do the searching, and anticipate the examination. Nowhere in the statute does it say "The Director shall cause the application and invention to be examined, unless the Director thinks that will result in too much work for the examiners, and then the Director can cause the applicant to do all the searching and anticipate the examination".

Further, an examination support document will be grossly expensive, likely doubling the cost of a typical application, and will make a mockery of the long standing case law (part of the law that the rules cannot be inconsistent with) that an applicant is not required to perform a search [See *In re Wilder*, 736 F.2d 1516 (Fed Cir 1984), and *Hebert v Lisle Corp.*, 99 F.3d 1109, 40 USPQ2d 1611 (Fed Cir. 1996)]. It also will result in many, many more charges of inequitable conduct when a patent gets into court [see *General Electro v Samick*, 19 F.3d 1405 (Fed Cir 1994)], thereby minimizing the worth of patents that are granted.

Further, since fees are, by statute [35 USC §41(d)(1)(A)], set based upon the cost of searching of an application, then if the PTO has a problem with searching and examining applications it should hire more examiners and if that results in higher costs then increase the fees. If it is cases with more than 3 independent or more than 20 total claims [cases with 3 independent and 20 total claims are already designated in the statute as covered by the initial fee and not subject to change by PTO rules] then the PTO should seek a change in the charge for searching each independent claim over 3, and each total claim over 20, while leaving the basic fee the same. In any event, going against the statutory framework is not the answer.

The new rules, if ever adopted, will be successfully challenged in court, and then after successful court challenge the PTO will have to redo all of the cases inappropriately examined in the meantime, leading to the least effective and most inefficient era in the history of the PTO.

(5) The rule changes should not be implemented. If they are implemented, they need substantial revision and clarification.

While the new rules should not be adopted, and will be successfully challenged in Court if adopted, in order to minimize the adverse effects thereof until they are overturned in Court the PTO should revise and/or clarify them in at least the following respects: i) If non-examined claims are rewritten into rejected examined claims, that will not occasion a second action Final Rejection. ii) If all examined claims are rejected before the case goes to the Board of Appeals all claims will be examined; OR once the case comes back from the Board (regardless of whether an affirmance or reversal) all claims will be examined without the need for the applicant to file a continuing application, or pay any additional fee. iii) The rules will not be applied to any application on file when the rules take effect, OR a procedure, such as that set forth in (3) above, will be implemented to insure that in each case pending when the new rules take effect where there are at least 10 claims, 10 claims will be examined without requiring any action by the applicant.

Sincerely,

Robert A. Vanderhye
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801 Ridge Dr.
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From: Bob Vanderhye [ravar@nixonvan.com]
Sent: Monday, January 23, 2006 1:46 PM
To: AB94Comments
Subject: Comments of Robert Vanderhye on Proposed Rules

Comments of Robert A. Vanderhye to Proposed Rules of the Patent & Trademark Office regarding "Changes to Practice for the Examination of Claims in Patent Applications"; RIN 0651-AB94 [Docket No. 2005-P-067]

Further to my comments submitted yesterday, I have one addition.

Rather than making the new rules (if adopted, which they hsould not be) retroactive instead a telephone procedure like that in restriction practice should be used. The examiner should call or e-mail the attorney or applicant and ask if he/she has an election, and state that if no phone election is made within 10 days, then claims X (to include 10 claims) will be examined. If there is no response within 10 days, then the 10 claims X are examined.

April 27, 2006

The Honorable Jon W. Dudas
Undersecretary of Commerce for
Intellectual Property and Director of the
U.S. Patent and Trademark Office
600 Dulany Street
Madison West
Suite 10D44
Alexandria, VA 22314

Re: Changes to Practice for the Examination of Claims in Patent Applications, 71 Fed. Reg. 61 (January 3, 2006). Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48 (January 3, 2006)

Dear Undersecretary Dudas:

The Office of Advocacy (Advocacy) of the U.S. Small Business Administration (SBA) submits this comment in response to the U.S. Patent and Trademark Office's (PTO) notices of proposed rulemaking referenced above. The proposed regulations would limit to ten the number of representative claims contained in an initial examination of a patent application as well as restrict an applicant to one continuation application as of right. Current rules of practice neither limit the number of claims that are reviewed on initial examination nor the number of permissible continuation applications. In the two proposals, the PTO concluded that the changes to the patent application and examination process would not have a significant economic impact on a substantial number of small entities.

Advocacy's comment relays concerns expressed by small entities about the proposed regulations. Advocacy believes that as written, the proposals are likely to have a significant economic impact on a substantial number of small entities, including small businesses and small independent inventors. Advocacy recommends that the PTO conduct a supplemental Initial Regulatory Flexibility Analysis (IRFA) before publishing the final regulations.

Background on the Office of Advocacy

The Office of Advocacy, created in 1976, monitors and reports on agency compliance with the Regulatory Flexibility Act of 1980 (RFA), as amended by the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).[1] The RFA requires federal agencies

[1] Pub. L. No. 96-354, 94 Stat. 1164 (1980), (codified as amended at 5 U.S.C. §§ 601-612).

to determine a rule's economic impact on small entities and consider significant regulatory alternatives that achieve the agency's objectives while minimizing the impact on small entities. Because it is an independent office within the SBA, the views expressed by the Office of Advocacy do not necessarily reflect the views of the SBA or the Administration.

On August 13, 2002, President George W. Bush signed Executive Order 13272, requiring federal agencies to implement policies protecting small businesses when writing new rules and regulations. In accordance with Executive Order 13272, Advocacy may provide comment on draft rules to the agency that has proposed a rule, as well as to the Office of Information and Regulatory Affairs (OIRA) of the Office of Management and Budget.[2] Executive Order 13272 requires agencies to give every appropriate consideration to any comments provided by Advocacy. Under the Executive Order, the agency must include, in any explanation or discussion accompanying publication in the *Federal Register* of a final rule, the agency's response to any written comments submitted by Advocacy on the proposed rule, unless the agency certifies that the public interest is not served by doing so.[3]

Background on the Proposed Rules

The PTO proposed two regulations changing the rules of practice in order to reduce pendency and accelerate the patent examination process. The first proposal, *Changes to Practice for the Examination of Claims in Patent Applications*[4] would require that only representative claims designated by the applicant would be reviewed in the initial examination. The agency defines representative claims as all of the independent claims and the dependent claims that are expressly designated by the applicant for examination.[5] Applicants who designate more than ten representative claims will be asked to provide the PTO with an examination support document[6] discussing all of the representative claims. The agency asserts that preparation of the examination support document should cost about $2,500.[7] However, small entities argue that completing an examination support document will be more costly, time consuming and restrict their ability to prosecute patents vigorously.

The second proposal, *Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims,*[8] is intended to help make the patent examination process more efficient by facilitating examiners' review of new applications, improve the quality of patents, and expedite the issuance of patents. Continuing applications allow applicants to amend a patent application after it is rejected as well as obtain examination of the amended application. Continued examination practice allows additional examination of a patent application and helps advance an application to final agency action.[9] Instead of permitting an unlimited number of continuing application and continued examination filings, the proposed regulation revises the rules to allow only one continuation

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[2] E.O. 13272, at § 2(c), 67 Fed. Reg. at 53,461.
[3] *Id.* at § 3(c), 67 Fed. Reg. at 53,461.
[4] 71 Fed. Reg. 61 (January 3, 2006).
[5] Id. at 62.
[6] Id. at 65.
[7] Id. at 66.
[8] 71 Fed. Reg. 48 (January 3, 2006).
[9] *Id.*

application and one continued examination as of right. The proposal also requires that second and subsequent requests for continuation applications and continued examinations should include a petition explaining why the new information could not have been submitted in a prior filing. A fee of $400 would be required for each petition.[10]

The PTO certified that the proposed rules would not have a significant economic impact on a substantial number of small entities in accordance with Section 605(b) of the RFA.[11] The agency's certification was based on data obtained from its Patent Application Locating and Monitoring System (PALM) which showed that about 65,785 "small entities patent applications" were filed (out of a total 216,327 applications) from January 1, 2005 to October 13, 2005.[12] Out of that number, 866 small entity applications (out of 2,522) had more than ten independent claims.[13] PALM also showed that in Fiscal Year 2005, 19,700 (out of 62,870) small entity patent applications were continuing applications and the PTO received 8,970 (out of 52,750) new requests for continued examination from small entities.[14] Advocacy notes that the PTO's definition of small entities excludes any application from a small business that has assigned, granted, conveyed, or licensed any rights in the invention to an entity which would not qualify for small entity status.[15]

The PTO Should Conduct an Initial Regulatory Flexibility Analysis (IRFA)

On March 8, 2006, the Office of Advocacy hosted a roundtable to discuss the potential economic impacts of the two proposed regulations. Present at the roundtable were independent inventors, patent attorneys, trade association representatives, PTO staff, and Advocacy staff. PTO personnel gave a presentation on the two proposals, listened and participated in the discussion.

At the roundtable, and through subsequent discussions, Advocacy was informed by those representing small business interests that the proposed rules would have a significant economic impact on small entities seeking patents. Small entities asserted that taken together, the two regulations would increase the cost of application preparation and hinder the patent prosecution process. Moreover, they raised concerns that the regulations will significantly impact the most valuable and commercially viable patents, because those types of patents typically involved a higher number of continuations.

Small entity representatives indicated that limiting applicants to ten representative claims would make it very difficult to properly identify a potential patent, could create future liability concerns, and would weaken potential patents. Contrary to the PTO's estimates, they stated that completion of an examination support document could cost from $25,000 to $30,000 – a significant outlay. Further, small entities argued that limiting continuation applications and examinations would inhibit their ability to enhance their applications, significantly increase costs

[10] 71 Fed. Reg. at 56-57.
[11] 5 U.S.C. § 605(b).
[12] 71 Fed. Reg. at 66.
[13] *Id.*
[14] 71 Fed. Reg. at 56.
[15] Manual of Patent Examining Procedure § 509.02 (October 2005).

through new fees, and force small entities to seek review through the very expensive appeals process. Some small entities also stressed that continuation applications are used frequently by small businesses to secure the most commercially successful inventions. Therefore, limiting the number of continuations could severely weaken small entities' ability to protect their patents.

Advocacy believes that the rule will affect a substantial number of small entities. The two proposed changes to the rules reshape the basic rights of any small entity that files a patent application. In addition, the definition of small entity that the PTO uses in its certification is for calculating filing fees and excludes any small entity that has a contractual arrangement involving the invention with a larger company. Small business size standards for RFA purposes don't include this restriction so the number of small businesses affected is likely to be larger than stated in the certification.

Given the issues outlined by regulated small entities and the far reaching impact on many small businesses, Advocacy urges the PTO to complete an IRFA prior to publication of the final rule.[16] The IRFA would allow the agency to examine the impacts of the proposed rule changes on affected small entities more closely. It would permit the agency to evaluate the issues discussed above as well as encourage small entities to comment on the additional information provided in the IRFA. Including an IRFA would also help identify viable regulatory alternatives to the proposed rules and demonstrate agency compliance with the RFA.

Regulatory Alternatives

Advocacy appreciates the PTO's challenge in seeking to identify a reasonable solution to ever increasing caseloads and rising pendency of patent applications. Should the PTO decide to publish an IRFA prior to finalizing the proposed regulations, Advocacy suggests the following alternatives for consideration. The alternatives discussed below attempt to minimize the potential impact of the regulations on affected small entities while also meeting the agency's regulatory objectives. Not intended as an exhaustive list, the following alternatives are just a few of those suggested by the small entities affected by the rulemakings.

Examination of Claims in Patent Applications

1. The PTO Should Expand the Number of Representative Claims Included in Initial Review.

The PTO should evaluate whether increasing the number of representative claims allowed on initial review would be feasible. Small entities argued that ten representative claims would be insufficient to describe the parameters of a potential patent properly. Further, required completion of an examination support document for those applications containing more than ten

[16] 5 U.S.C. § 603 (which requires an agency to publish an IRFA whenever it is required by Section 553 of the Administrative Procedure Act to publish a general notice of proposed rulemaking. As part of a IRFA, the agency must include a description of the reasons why they agency is considering the rule, a succinct statement of the objectives of the rule, the legal basis for the rule, a description and estimate of the numbers of small entities affected by the rule, a description of the projected compliance requirements, identification of Federal rules that overlap or duplicate, and a description of significant alternatives).

representative claims would be more costly than the estimates provided by the PTO and could lead to liability concerns.

2. The PTO Should Provide Expedited Review of Applications that Contain Ten or Fewer Representative Claims.

Since the agency would like to complete initial reviews more efficiently, Advocacy suggests providing an incentive for the applicants to limit the number of representative claims. Offering expedited initial review of applications with ten or fewer representative claims could persuade many applicants to reduce their claims to a lesser number voluntarily. This would help meet the agency's regulatory objectives while facilitating the initial review of patent applications.

3. The Agency Should Not Apply the Regulation Retroactively

Advocacy encourages the PTO to remove retroactive application of the ten representative claim limit to currently pending applications. This provision could be particularly costly for regulated small entities that are less able to absorb expenses associated with reviewing and revising pending applications. As a result, the proposed regulation could prevent small entities from prosecuting their pending patents.

Changes to Practice for Continuing Applications

1. The PTO Should Increase the Number of Permissible Continuation Applications.

Small entities informed Advocacy that limiting patent applicants to a single continuation would negatively impact the most commercially viable and important patents. Similarly, they assert that, in many cases, the most valuable inventions are based on continuation applications. Advocacy recommends that the PTO, at a minimum, permit two continuation applications as of right. In an IRFA, the PTO could request comment on a reasonable number of continuations. Advocacy's discussions with small entities indicate that increasing the number of permissible continuation applications could reduce the potential impact of the regulation.

2. Consider Increasing the Fees for Additional Continuation Applications.

If the agency increases the number of continuations as of right, it could increase the associated fees as well. Small entity representatives have suggested that increasing the fees for additional continuations beyond the first, could deter the filing of additional continuations. Thus, applicants would be encouraged to limit their continuation filings in order to avoid excessive fees.

3. The Agency Should Defer Review of Subsequent Continuation Applications.

Under current rules of practice, continuation applications are often reviewed in advance of many new applications. Some small entities have suggested that the PTO could institute deferred review of continuation applications. This change would permit patent examiners the

opportunity to review more initial applications, thus helping to achieve the agency's regulatory goal of reducing pendency.

Conclusion

Advocacy encourages the PTO to review the comments provided and use the information to conduct a more complete analysis of the potential impact on small entities, which appears to be significant. Advocacy recommends that the PTO release an IRFA that responds to concerns and viable alternatives presented here as well as those filed by small business commenters.

Thank you for your consideration of these issues. Should you have any questions or require additional information, please contact me or Carrol Barnes of my staff at (202) 205-6533.

Sincerely,

/s/ _____
Thomas M. Sullivan
Chief Counsel for Advocacy

/s/ _____
Carrol L. Barnes
Assistant Chief Counsel for Advocacy

cc: Mr. Donald Arbuckle, Acting Administrator,
Office of Information and Regulatory Affairs, Office of Management and Budget
Mr. John Doll, Commissioner for Patents, U.S. Patent and Trademark Office