PENNSYLVANIA INTELLECTUAL PROPERTY FORUM
201 NORTH JACKSON STREET • MEDIA • PENNSYLVANIA • 19063
PHONE: (610) 891-0668 • FAX: (610) 891-0655
EMAIL: IPFORUM@YARBROUGHLAW.CO

April 5, 2004

BY FAX: 703-305-5907
Bernard J. Knight, Jr., Esquire
Deputy General Counsel for General Law
United States Patent & Trademark Office
P. O. BOX 1450
Alexandria, VA 22313-1450

Re: Failure of the Patent and Trademark Office (PTO) to comply with the Regulatory Flexibility Act relating to four recent rulemakings

Dear Mr. Knight:

This letter is in response to your letter of March 24, 2004. For the record, you initiated a telephone call to our office on March 23, 2004. The following persons participated in the telephone conference for the PTO: Bernard Knight, Steve Kunin, Bob Barr, Harry Moatz, Administrative Patent Judge Richard Tortzen and Jennifer Simmons. The following persons participated for the Pennsylvania IP Forum: Stuart S. Bowie, Deborah Logan, Robert J. Yarbrough, Gerry J. Elman, and Robert S. Lipton.

We disagree with your letter of March 24 and with the positions that you argued during the telephone conference on March 23. The areas of disagreement are as follows:

I. MR. KNIGHT, IN HIS CAPACITY AS DEPUTY GENERAL COUNSEL OF THE PTO, MADE STATEMENTS THAT ARE FACTUALLY INCORRECT.

A. SBA personnel have no recollection of memoranda from the PTO.

1. During the telephone call, we asked you whether the PTO performed analyses and collected facts to support its certifications that the four rulemakings in question would have no significant effect on small business under the Regulatory Flexibility Act (5 U.S.C. 601 et seq., hereinafter "Flex Act" or "RFA"). You responded that prior to publication of each of the four certifications, the PTO submitted memoranda to the SBA Office of Advocacy documenting the PTO's conclusions of no significant effect. You further stated that the SBA Office of Advocacy did not object to the PTO's memoranda or conclusions. You implied that the SBA's failure to object amounted to approval of the PTO's certifications of no significant effect and that the SBA's approval demonstrated compliance with the RFA. You stated that the PTO did not conduct any other analyses or collect any additional facts to support the certifications of no significant effect.

2. Our Forum met with the SBA Office of Advocacy and has been advised that neither Mr. Sullivan nor any of his colleagues who attend to Flex Act submissions have any recollection of receiving any communication from the PTO relating to the four rulemakings in question. They have agreed to look for the submissions and send copies to us, if any can be found, and provided the documents are subject to public disclosure. As yet, we have received no such copies.

3. In light of the foregoing, we reiterate our request that you produce pursuant to the Freedom of Information Act ("FOIA") each of the memoranda to which you referred and which allegedly was provided to the SBA. We have not yet received any such memoranda from you in response to our earlier request. Your failure to supply us with those memoranda coupled with the lack of recollection of any PTO memoranda by the SBA can only cause us to infer that no such memoranda exist.

4. We hereby expand our FOIA request to include any and all documents relating to communication between the PTO and SBA and all of their agents and officers concerning the four rulemakings in question. By "documents" we mean any information in any form and whenever created relating to communications with the SBA concerning the four identified rulemakings, including without limitation electronic files resident within computer memory or recorded in any tangible form, emails, forms, reports, faxes, letters, memoranda, notes or memoranda of telephone conferences, sound recordings and all other media in any form from which information may be extracted.

5. We further expand our FOIA request to include all documents reflecting facts, information and analysis developed or performed by the PTO in reaching the decision to make the four RFA certifications in question. The four certifications in question are identified in our letter to Honorable Jon W. Dudas of March 17, 2004, which was the subject of the telephone conference of March 23, 2004, and which we hereby incorporate by reference.

6. President George W. Bush signed Executive Order 13272 on August 13, 2002 (the "EO") requiring all agencies, including the PTO, to "issue written procedures and policies, consistent with the RFA, to ensure that the potential impact of agencies' draft rules on small businesses...and small organizations are properly considered during the rulemaking process." We hereby request that you produce under FOIA and fax to the undersigned a copy of the final policies and procedures adopted by the PTO pursuant to the EO.

7. We request that you produce any and all documents relating to compliance by the PTO with its final policies and procedures adopted pursuant to the EO and relating to the four rulemakings in question.

B. The Pennsylvania IP Forum has notified the PTO of specific deficiencies in PTO compliance with the RFA.

1. Your letter states that our forum "could not outline any specific deficiencies with any of the notices." Your statement is flatly erroneous. Our letter of March 17, 2004 to Honorable Jon W. Dudas and our letter of March 17, 2004 to Senator Orrin Hatch very specifically define the "deficiencies" under the RFA. The PTO has not addressed the lengthy analysis of the deficiencies contained in those letters before, during or after the telephone conference. While some of those deficiencies are repeated in this letter, we refer you to our prior correspondence for a more complete explanation.

2. As our correspondence noted, the bald conclusions found in each of the four Federal Register notices -- to the effect the PTO had concluded that there will be no adverse impact of any of the proposed changes -- were devoid of the factual bases required by the RFA and do not comply with that Act.

II. THE PTO HAS FAILED TO DEMONSTRATE COMPLIANCE WITH THE RFA.

A. The PTO has the burden of complying with the RFA.

1. In the telephone conference and in your letter, you consistently attempt to place the burden on the public to demonstrate that the PTO must conduct an RFA analysis. Your letter ignores the undeniable rule of law pointed out in our previous correspondence: the PTO has the burden of conducting an analysis pursuant to the RFA and otherwise complying with that Act. The PTO CANNOT shift this burden to the public. It is not up to us to demonstrate to you that the PTO must comply with the law. The PTO either will comply or it will not. If it does not, then its regulations will be invalid and unenforceable.

2. Your also assert that you offered to delay the final rules by seven days to permit the Pennsylvania IP Forum to present "any additional comments." Please consider our letter of March 17, 2004 to Honorable Jon W. Dudas, our letter of March 17, 2004 to Senator Orrin Hatch and this letter to be "additional comments" to each of the four rulemaking packages pursuant to your offer. Our letters sufficiently set forth PTO's violations of the Regulatory Flexibility Act and no additional comments are in order. Frankly, we believe your private offer to delay rulemaking extended to a single group is wrong. We repeatedly requested and still request that the PTO suspend the proposals and publish a full Regulatory Flexibility Act analysis, as that Act requires. The opportunity to make informed comment should be extended to ALL members of the public, including the Pennsylvania IP Forum.

3. We make the same response to your statement that we "refused" to submit additional information. As stated, our Forum has already made its position clear in prior correspondence. Specific comments, evidence, data and a demand that the PTO adhere to the Regulatory Flexibility Act are contained in our letters to Honorable Jon W. Dudas and Senator Orrin Hatch of March 17, 2004 and in our rulemaking comment letter of December 18, 2003. To the extent this assertion by the PTO was an attempt to persuade our Forum to accept the burden of "proving" anything, we reject the assertion because the burden of the Regulatory Flexibility Act is upon the PTO and not upon our Forum or any other member of the public.

4. We wish to make it clear that our letters demanding compliance by the PTO pursuant to the RFA are for the purpose of determining the impact not only upon our small business clients but also upon our organization of small firm and solo patent attorneys. As to the latter, we are a protected "small organization" and each of our members runs a protected small business. We are entitled to have the PTO assess the impact upon our businesses and our incomes, which will be caused by the proposed rules.[1]

5. We note your statement in your letter that the PTO will "proceed with publication of the final rules and will address those concerns that have been received." We construe that to mean the PTO will ignore Regulatory Flexibility Act "concerns" -- including ours -- on the grounds that our Forum's letters are not "comments" which must be addressed by the PTO. If that is what you mean, then your statement is unlawful and we object. The PTO either will comply with the RFA or it will not. Whether the PTO has received RFA-specific "comments" is irrelevant to that compliance. If the PTO fails to comply, its regulations will be invalid and unenforceable.

B. The PTO has failed to meet its burden of compliance with the RFA.

1. Your letter refers to a "disagreement as to the general requirements of the Regulatory Flexibility Act with respect to certifications." You recite a view that is not consonant with the Act and the Executive Order. We disagree with your position. Our position is contained in our letters relating to the Regulatory Flexibility Act and we stand by our position as stated in the letters.

2. Your letter asserts the PTO made "good faith" statements that these rules "do not require Regulatory Flexibility Act analyses to be performed." Whatever the faith demonstrated by the PTO in the initial certifications, it certainly knows now that the rules require RFA analyses or development of factual bases to support certifications of no effect. The PTO can

[1] We note for the record that S. 818 "A bill to ensure the independence and nonpartisan operation of the Office of Advocacy of the Small Business Administration" was introduced by Senator Snowe on 4/8/2003 and is now in Committee.

correct the deficiencies now, in good faith and prior to final promulgation, by conducting full RFA analyses, publishing the analyses, and reopening the rulemaking packages for comment in light of those analyses.

3. Since you have introduced motive, we hereby extend our FOIA request. We request that you produce all documents or other information that relate to your assertion that the PTO acted in "good faith". Candidly, we view the "good faith" assertion as an attempt to excuse the PTO's non-compliance in the event that there is litigation. The good faith of an agency is irrelevant to RFA compliance. Either the PTO will comply or it will not. We do not accept the conclusion that RFA analyses were not required based on the "good faith" of the PTO.

III. DIFFICULTY OF COMPLIANCE IS NOT AN EXCUSE FOR IGNORING THE RFA.

1. In your effort to shift the burden to the public to demonstrate that the PTO must comply with the RFA, you make the statement that "without any additional input...it is difficult—if not impossible—for the Agency to specifically address your concerns." In response, the burden is on the Agency—the PTO—to adhere to the Regulatory Flexibility Act. Our "concern" is that the PTO has evaded the Act. The PTO can fully address our concerns by conducting full RFA analyses of the four rulemaking packages in question, publishing the analyses and reopening those rulemakings for public comment so that small businesses can make an informed decision whether to submit comments to the rulemaking packages.

2. The PTO cannot know if a Regulatory Flexibility Act analysis is "difficult –if not impossible" until it tries to perform such an analysis. Your statement is nothing more than an unsubstantiated sweeping generalization. Specifically, your position that adhering to the Act and the EO might be "difficult-if not impossible" without having tried to comply, and then using that presumed "difficulty" or "impossibility "as an excuse for not complying with the Act and the EO is the worst sort of boot-strapping argument. The RFA does not relieve the PTO of the duty to conduct an evaluation of the burden on small business because the evaluation is difficult. The RFA requires an evaluation regardless of the difficulty.

IV. THE FOUR RULEMAKING PACKAGES ARE SUBSTANTIVE.

1. You argue that RFA compliance was not required for the four rulemaking packages because "interpretative rules, general statements of policy and rules of agency organization, procedure and practice' are exempt from the Regulatory Flexibility Act." Your arguments are not credible and are not supported by the cases that you cited.

2. The argument is not credible because you admitted during the telephone conference that at least some of the rulemakings are substantive and not procedural. You did not identify the rulemakings to which you referred. You therefore admit that at least some of the rulemakings require RFA compliance.

3. The argument is not credible because the PTO published defective RFA certifications of no effect for each of the four rulemakings. The PTO therefore admitted that the RFA applies to each of the four rulemakings.

4. The argument is not credible because you expressly stated that the PTO made submissions to the SBA (which we have not yet seen) in an effort to demonstrate RFA compliance.

5. The argument is not credible because several of the proposed rules will have a substantial effect on both large and small business. The proposed rules, such as proposed 37 CFR §1.105, cannot be swept under the rug as "procedural." Our comments to specific rules are contained in our letter to the Commissioner for Patents of December 18, 2003, hereby incorporated by reference herein.

6. The Pennsylvania IP Forum is not the only organization that believes these rules to be substantive. The IPO, American Intellectual Property Law Association and the American Bar Association all have submitted comments including objections to many of the proposed rules. In many cases, these groups asserted that the rules they objected to would be burdensome to their clients. The IPO—to take one example—represents the largest corporations in the United States. If those large corporations (which have abundant resources including ample support staff and huge budgets) assert that the rules proposed would burden them, then we assert that, ipso facto, those rules will burden small businesses, individual inventors and our Forum .

7. Your letter demonstrates that the PTO does not understand the Regulatory Flexibility Act. In short, once an agency proposes rules that may impact small business, it must perform the Regulatory Flexibility Act analysis and cannot escape doing so by conveniently labeling the rule as "procedural." The cases cited in your letter make very clear the inability of an agency to avoid its obligations under the Act. The ability of the PTO to avoid its obligations under the RFA is further restricted by Executive Order 13272.

8. If you desire numbers to support our contention that a significant number of individuals and small business will be affected, consider these: from the PTO website, between 1977 and 2001 a total of 1,435,712 patents were issued to applicants from the United States. Of that total, 445,872 patents were issued to individuals from the United States; that is, persons who did not assign their rights in the patent to others. During that period, individual

U.S. inventors therefore accounted for 31% of the total patents issued to U.S. inventors. The number of patents obtained by small businesses that are not individuals is undoubtedly even higher. Small business and individuals therefore account for a significant portion of the patent business before the PTO. To ignore the effect of PTO rulemakings on such a major constituency is a significant mistake and contrary to the RFA.

9. The data collected by the PTO and published on the PTO's website does not separately address patents granted to "Small Entities" (SE) as defined by the Small Business Administration. Since the PTO assesses different fees for SEs and maintains records for at least 17 years for maintenance notification purposes for all grantees, we ask: (a) Does the PTO have data showing or reflecting the number of SE patents granted during 1977-2001 or during any other period over the last thirty years? (b) If PTO has such SE data, we ask that the PTO produce it to us voluntarily by return fax, since such data would decisively enumerate the number of SE patents. If the PTO refuses to provide us with that data, please consider this as a FOIA request for such data.

The Pennsylvania IP Forum looks forward to the PTO's response. We respectfully demand that the PTO suspend promulgation of the proposed rules and perform the required Regulatory Flexibility Act analyses, publish the analyses and reopen the rulemakings for comment so that the public can make comments informed by the analyses.

Respectfully,
Pennsylvania IP Forum

Robert J. Yarbrough
Chairman

Copies By Fax To:

Senate & House Judiciary Committee Members
Senate Small Business & Entrepreneurship Committee Members
Senator Arlen Specter—Philadelphia Office
House Small Business Committee-Majority Office
House Small Business Committee-Democratic Office
Thomas Sydnor, Esquire

Hon. Donald Evans, Secretary
US Department of Commerce
Hon. Jon W. Dudas, Acting Under Secretary
US Department of Commerce
SBA Office of Advocacy