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From: Hamilton, Melissa - Cantor Fitzgerald **On Behalf Of** Alderucci, Dean - Cantor Fitzgerald
Sent: Friday, September 08, 2006 4:52 PM
To: AB95 Comments
Cc: Alderucci, Dean - Cantor Fitzgerald
Subject: Re: Comments to the July 10, 2006, Changes to Information Disclosure Statement Requirements and Other Related Matters, 71 Fed. Reg. 38808 (July 10, 2006)

Sent on behalf of Mr. Dean Alderucci.

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8 September 2006

VIA EMAIL AND FIRST CLASS MAIL

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RE: Comments to the July 10, 2006, Changes To Information Disclosure Statement Requirements and Other Related Matters, 71 Fed. Reg. 38808 (July 10, 2006)

Dear Sir:

The FINANCIAL SERVICES INDUSTRY INTELLECTUAL PROPERTY ASSOCIATION ("FSIIPA") thanks the PTO for the opportunity to comment the PTO's Proposed Changes To Information Disclosure Statement Requirements and Other Related Matters ("Proposed IDS Changes") of July 10, 2006.

FSIIPA is an international, unincorporated association of financial services industry companies who own intellectual property, and attorneys and agents who represent such companies. FSIIPA includes many of the largest financial services companies in the world, and several of the Federal Government's loan guarantee agencies, law firms and a number of small entities. FSIIPA's members have a collective interest in promoting and preserving a worldwide environment that fosters innovation and competition through a system of strong IP rights, and likewise have an interest in promoting efficient and comprehensive examination of business method patents (i.e. class 705) by the PTO. Membership is voluntary and open to all financial services industry organizations (e.g., accounting, insurance, banking, investment banking, brokerage, trading, etc.).

These comments are submitted solely by FSIIPA as its consensus view. They are not the views of any individual member, any firm, or any client.

The rule package is bad for applicants, bad for future accused infringers, and highly unfair to examiners who are trying to do a good job. The costs of the proposal are ***several dozen*** times what the PTO hopes to save. The PTO's encouragement of applicants to withhold prior art will degrade the functioning of the whole patent system.

In the "Town Hall" meetings this spring, the PTO suggested that the Examination of Claims, Continuation, and IDS rule packages might cut PTO costs by perhaps 10-15%, a ***maximum*** savings of about $100 million per year. The PTO's own hour burden estimates concede that each of the three rule packages will increase costs for applicants by at least ten times that. Costs unacknowledged by the PTO, including costs on competitors seeking to design around, litigation defendants, and lost business value, are easily in the hundreds of millions, and likely billions of dollars. The PTO has not explained why it cannot raise fees, and hire examiners, to meet its backlog - all it offers is a bald statement that it "cannot hire its way" out of its backlog, with no supporting data. The PTO has offered no cost balancing or rationale supported by substantial evidence.

The rule package is contrary to law and fails a number of procedural requirements, and is simply bad policy. It should be withdrawn.

I. The IDS Rule Package is a Regression to Old Rules that Were Abandoned as Unworkable

From 1988 to 1992, the PTO went through a complete rework of its disclosure and IDS rules, involving at least three major published drafts and three years' discussion between the Office and all interested constituencies. In the Notice of Final Rule in January 1992, the PTO acknowledged three things:

- Examination is a job for examiners, not applicants. FN Recognizing this, in 1993 the PTO withdrew the long-standing requirement that applicants include "a concise explanation of the relevance of each listed item."

FN Duty of Disclosure, Notice of Final Rulemaking, 57 Fed. Reg. 2021, 2026, reply to Comment 22 (January 17, 1992) (The 1992 amendments to Rule 56 were "intended to provide the Office with the information it needs to make a proper and independent determination on patentability. It is the patent examiner who should make the determination after considering all the facts involved in the particular case.")

- The PTO is obligated to calibrate its fees to its costs. FN The more accurately the PTO can determine its costs for "extra" examination services and accurately charge those costs precisely to the applicants whose applications require them, the more accurately applicants can do their own cost-benefit analyses, so that they will ask the PTO to do only the work believed warranted by the importance of the invention.

FN 35 U.S.C. § 41(d)(2); Duty of Disclosure, Notice of Final Rulemaking, 57 Fed. Reg. 2027-28, replies to Comments 39, 41, 46, 48 (January 17, 1992) ("the fee will compensate the Office for the additional work that will be necessary when information is submitted during an advanced stage of the examination process.")

- Barriers to complete disclosure should be minimized. The PTO encouraged applicants to take a "better safe than sorry" approach. FN

FN Duty of Disclosure, Notice of Final Rulemaking, 57 Fed. Reg. 2021, 2023, reply to Comment 3 (January 17, 1992) ("The Office believes that most applicants will wish to submit the information, however, even though they may not be required to do so, to strengthen the patent and avoid the risks of an incorrect judgment on their part on materiality or that it may be held that there was an intent to deceive the Office.")

The July IDS rule package turns the clock back, and re-adopts a number of provisions that were abandoned as unworkable in 1992, and expresses rationales 180° opposite those stated in 1992. FN

FN Courts give considerable deference to agency interpretations of rules that were made contemporaneously with the adoption of the rule, and corresponding suspicion to attempts to re-interpret the rule years later. cite. The re-interpretations offered in the Notice will raise considerable skepticism in any reviewing Court, and may well lead the court to conclude that the agency's position "lacks substantial merit" for purposes of fees under the Equal Access to Justice Act.

II. The Facts and Legal Propositions Stated in the Notice of Proposed Rulemaking are Wrong

The Notice for IDS rule package suffers from the following flaws:

• Most statements of substantive patent law in the Notice are simply wrong. This leads the PTO to a flawed understanding of applicants' obligations, and inappropriate ways of solving the problems that the PTO perceives.

• The rule proposal makes a number of errors of procedural law, as discussed in further detail below.

• Factually, the cost estimates for the burdens imposed on applicants, and the selective burdens imposed on small entities, are off by a factor of 1000. The rule package is infirm under the Regulatory Flexibility Act (5 U.S.C. § 601 *et seq.)* and Executive Order 13272, both of which are simply ignored in the Notice.

• The overall efficiency and effectiveness of the patent system requires that certain tasks be performed by the Patent Office. For example, references must be considered by neutral government adjudicators, not by advocates for parties. Otherwise, courts will be reqiured to re-adjudicate issues from scratch in a far more expensive forum, without deference. Subsequent enforcement and licensing proceedings are more efficient if **all** the relevant prior art is collected in the file history, so that each subsequent party does not have to invest thousands or perhaps tens of thousands of dollars re-discovering that art. A "thinner" adminstrative record will add tens or hundreds of thousands of dollars of costs per patent during litigation. In a short-sighted effort to reduce its own costs by hundreds of dollars, the PTO proposes to add **tens of thousands** of dollars per patent of dead-weight economic costs to the patent system as a whole. The basic laws of economics apply here - applicants will be happy to pay the PTO's costs for performing these functions, if its simply sets its fee schedule to cover its costs.

• As a practical matter, the proposed IDS rules will require applicants to either breach requirements of substantive law, or surrender substantial patent coverage.

• The IDS rule package is incompatible with other currently-pending rule packages, particularly "Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims" (71 Fed. Reg. 48, January 3, 2006)

• The Notice states that it is a "practical reality" that an examiner has a "limited" amount of time to examine an application. (71 FR at 38810 col. 3) In public comments to previous rule proposals and "white papers" on restriction practice, a number of organizations and comments have challenged this assumption, and have asked the Office to identify reasons that additional examining fees cannot be passed through to examiners as examining time. The Office has not identified any support for its contention that examining time cannot be increased commensurately with fees charged. FN Why has the Office not increased examination time, in light of the substantial fee increase that went into effect in 2004? If there is some valid reason, the Office should disclose it, so that alternatives can be proposed.

FN. "In order to allow for useful criticism, it is especially important for the agency to identify and make available technical studies and data that it has employed in reaching the decisions to propose particular rules. To allow an agency to play hunt the peanut with technical information, hiding or disguising the information that it employs, it to condone practice in which the agency treats what should be a genuine interchange as mere bureaucratic sport. An agency commits serious procedural error when it fails to reveal portions of the technical basis for a proposed rule in time to allow for meaningful commentary." *Connecticut Light and Power Co. v. Nuclear Regulatory Comm'n*, 673 F.2d 525, 530-31 (D.C. Cir. 1982). "It is not consonant with the purpose of rule-making proceeding to promulgate rules on the basis of inadequate data or data that in critical degree, is known only to the agency." *American Medical Ass'n v. United States*, 887 F.2d 760, 767 (7th Cir. 1989).

III. Alternative Proposals

The members of the FSIIPA are most concerned about -

- the unreasonably long delays between filing an application and receiving a first office action in class 705, computer implemented business methods. Class 705 (examined in art units 3620 and 3690) has the longest delays of any art by a factor of 2. These delays currently stand at four to ten years given the

current allocation of examiner resources. See http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslidestext.html .

- the rarity with which first Office Actions present a complete examination, addressing all limitations of all independent claims. In well over half of applications in 2100 and 3600, *bona fide* examination often does not start until the second or third Office Action.

- frequent deviations from written PTO examination procedure, and lack of supervision to ensure compliance - examiners are left free to "make up the rules as they go." For example, in the computer and business method arts, less than one obviousness rejection in 50 sets forth any finding whatsoever on the "reasonable expectation of success" element of *prima facie* obviousness as required by MPEP §§ 2143-2143.03. Examiners frequently state novel reasons for not giving "patentable weight" to claim limitations. Such procedural deviations inevitably lead to substantive errors. Applicants respond by requesting "rework," or more accurately, complete work of first instance - either the patent coverage that is due under the law, or a statement of a rejection that complies with applicable legal standards.

FSIIPA proposes several alternatives that are rationally related to the problems the PTO seeks to solve, and that address the problems identified by FSIIPA members.

A. Diagnosis of the Problem in Financial Services Arts

Commissioner Doll, in the New York "Townhall Meeting" sponsored by AIPLA and NYIPLA, April 7, 2006, made two relevant statements. First, he noted that the "business methods" art units were a particular problem. Second, he stated that the PTO had made no effort to diagnose the problem - the PTO did not even know whether the problem was caused by examiner error or applicants "gaming the system." FSIIPA offers the following observations to fill that gap.

Our experience, supported by the examiners themselves, is that a primary source of delay is lack of experience and training in the financial arts. Because business and finance have not been among the technical fields meeting the hiring prerequisites for examiners, very few examiners in the T.C. have educational or practical knowledge in financial topics, the way business methods work, or the basic "jargon" of the art. For example, examiners have maintained repeated Office Actions based on assertions that a "lease" is the same thing as a "mortgage," that a "secondary loan" is the same thing as a "secondary market," that a loan "secured" by an asset is the same thing as a loan that is "non-recourse" against that asset, that a "lessee" is the same thing as a "landlord," and so on. (*See, e.g.*, 09/611,548, any paper.)

When inventors and examiners are literally speaking different languages, effective communication cannot occur, everyone gets frustrated, and no one makes progress. Without knowledge of basic terminology and concepts, much of the effort in these art units is unproductive. The Board's "Dispositions by Technology Centers" statistics show that examiners in 3600 are reversed at least 10% more often than the corps as a whole.

Examiners who lack business education or experience have difficulty evaluating and understanding the invention description. In addition, the lack of basic familiarity of practices and processes in the insurance and broader financial services areas will cause examiners to fail to recognize standard prior practice in these fields. This adds further delays.

Another closely-related problem, both in the business methods art units and in other high-technology areas such as computer architecture, is purely procedural. Examiners often (in well over half of all applications, for some attorneys) simply leave claim language out of consideration of independent claims. (*See, e.g.*, 09/611,548, Response of 7/20/06 at p. 9, noting that the claim language "non-recourse against the asset" has not been considered in four consecutive Office Actions; 09/239,194, Request for Reconsideration of 6/20/06, noting that the final Office Action states no position on at least one limitation of each independent claim at issue.) This

occurs most often when the claim term is unfamiliar to the particular examiner, even if the term appears in standard technical dictionaries and undergraduate textbooks. The experience of FSIIPA members is that examiners' frequent failure to state any position whatever on claim language may be the single biggest source of "rework," at least in these art units.

Finally, the PTO's own statistics suggest that 80% of final rejections are wrong. See http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/heritagewoods_con.pdf , pages 2-4. FN This is somewhat conservative relative to our experience in the financial services sector. Until the PTO addresses the dominant causes of its "rework" costs - examiner errors and incomplete examination - it is premature to impose such major changes on applicants' options for overcoming those errors.

FN The available statistics only reflect appealed rejections; however, our anecdotal experience is that the 80% number is fairly close to representative of non-appealed final rejections as well, at least in these art units. For example, one of our colleagues did a formal study of his first 100 "pre-Appeal Brief" reviews, and found that less than 5% of rejections survived such review. This extraordinary rate of reversal is not reflected in the FOIA appeal statistics we obtained. The inherent "self-selection" in the available statistics suggests that the 80% number for the unavailable statistic for non-appealed final rejections is in the right ballpark - at least it's not wildly biased against the examiner.

Our experience is that "too many references" is almost never a problem, at least in 3600. We do not see a rational connection between the problems that the PTO has identified, or any other problem that has a statistically-significant effect on the PTO's backlog statistics, and the rules proposed to solve them.

We offer the following alternatives.

B. First Proposal: Resources Should Follow Demands

As representatives of the financial services industry, FSIIPA is perhaps more attuned to basic principles of economics. From that perspective, we observe that another fundamental cause for many of the PTO's resource shortages all arise from a single flaw: the PTO's internal metrics attempt to divorce examiner performance and compensation from basic market supply and demand forces. Just as "fixed wage" economics failed the Soviet Union, "fixed count" economics fails the PTO. Until the PTO restructures its internal metrics around fundamental supply and demand, and more fairly compensates examiners for examining applications of varying size and complexity, all of this year's rule proposals are doomed to failure. No rule proposal can repeal basic laws of economics.

The PTO's current IDS proposal worsens the fundamental economic flaws of the "three counts per application" compensation system, by further decoupling resource availability from demands: fees are *reduced* for services that applicants require for proper examination. This is exactly wrong. The PTO's proposal thus guarantees a continued degradation of the levels of service it will be able to provide in coming years.

FSIIPA offers an alternative proposal directed to matching up resources to the PTO's costs and demands. The alternative proposal has five elements:

• Patent applications must be examined by the PTO. The PTO may ask applicants' help in identifying the most relevant references, and the most relevant portions of references, but at the end of the day, comparing references to claims is an examination task for examiners, not an application task for applicants. Applicants might be required to identify the particular portions of a large reference that caused it to be cited, but should not be required to identify "specific feature(s), showing(s), or teaching(s)"

• The PTO is obligated to make a bona fide effort to measure the costs associated with certain services provided by the PTO, and set its fee levels accordingly. 35 U.S.C. § 41(d)(2). For example, the fee schedule for an IDS

might be as follows (the numbers are pure first “guesstimates” - FSIIPA offers no opinion on what the actual numbers should be):

for each reference first disclosed after the first Office Action	$18
for each 10,000 words (25 pages) by which a designated portion of a reference first disclosed after a first Office Action exceeds 10000 words (25 pages)	$12
the above fees reduced by 50% when the reference is cited in a related application	
the above fees are reduced by 50% if an applicant provides the discussion requested in the rule package	
the above fees double if the reference is filed after prosecution is closed	

As noted below, the proposed repeal of the IDS fee is contrary to statute, and will lead to an inefficient allocation of the PTO's resources.

• Examiners should have examination time that accords with the demands placed on them - for example, examination time should be proportional to the filing fee plus “size fee” plus excess claim fee plus IDS fees, not a “flat rate” that disregards application size or complexity. Examiners should have more time to examine more complex applications, and less time to examine simpler applications.

• The rules should allocate tasks to the party in best position to perform them most efficiently, and should not create unproductive “busy work.”

• Rule amendments directed at abuses should be narrowly tailored to the abuses. Applicants who are making a *bona fide* effort to secure strong patent protection for an important invention should pay the costs of that examination, but should not face “collective punishment” for the sins of a few.

FSIIPA acknowledges that the current IDS rules are capable of being abused. For example, we understand that certain applicants have filed a “small” IDS before the first office Action, with nothing terribly relevant, and then filed a “large” IDS after the first Action, with very close prior art - often of the applicant himself - buried among many irrelevant references. FSIIPA believes that such abuses are better addressed by the PTO's adjudicatory powers (37 C.F.R. § 1.56, “No patent will be granted on an application in connection with which fraud on the Office was practice or attempted or the duty of disclosure was violated through bad faith or intentional misconduct”; § 10.23(c), forbidding “giving false or misleading information ... to ... The Office”; § 10.23(c)(5), disbarment for violation of Rule 56) than by rule. However, if the PTO believes rulemaking is appropriate, then those rules must be specifically tailored to the abuses, without burdening applicants who are merely attempting to create a record of candor and complete disclosure. Applicants with complex patent applications (whether because the technology is inherently complex with many “moving parts,” or complex because in a crowded field) should not be forced to surrender substantial portions of the value of their inventions because a few others are abusing the system.

C. Second Proposal: Technological Assistance With References

FSIIPA offers the following alternative proposals that will address the USPTO's short term work load problem associated with unduly large IDS disclosures, without creating an undue burden for applicants.

- **Perform an automated optical character recognition transformation (OCR) on all submitted IDS documents.** The USPTO already scans all IDS submissions as digital images. The USPTO could upgrade its computer systems to automatically perform an OCR of the scanned documents. Proofreading could be outsourced.

- **Create a searchable database of OCR IDS documents** All OCR IDS documents could be stored in a searchable data base.

- **Have examiners perform key word searches on IDS documents submitted by applicants.** Examiners already rely on key word searches of relevant data bases to find portions of documents material to the patentability of a given application. A key word search of IDS documents should be equally effective.

- **Offer applicants an option to pay a fee to cover capital and operating costs of OCR conversion and IDS data base maintenance**. A few dollars per 100 pages of submission should be more than adequate to cover the USPTO's costs. Most applicants would find this charge far preferable to the tens of thousands of dollars of time required to comply with the proposed IDS rules.

D. Third Proposal: Examiners Should have Access to Subject Matter Experts

FSIIPA proposes that the PTO make a determined effort to acquire subject matter expertise in the business methods area, and to make that expertise available to the examining corps. This could take either of two forms - internal hires or external consultants. We suggest that these "subject matter specialists" not be responsible for examination in the first instance, but rather act as consultants to examiners in the business methods area, so that their expertise can be leveraged broadly among the examining corps. Thus, for example, if an examiner has a patent application in the field of insurance (i.e. class 705/004), the examiner would have access to an expert in the field of insurance most relevant to the application. This expert might be an actuary who is a member of the American Academy of Actuaries (www.actuary.org)or the Society of Actuaries (www.soa.org) and who is otherwise qualified to provide expertise in the subject area.

The PTO could fund this program without statutory authorization by offering applicants an option to pay a surcharge that would be used to fund these experts - many, if not most, applicants would find it cheaper to have their applications examined with the assistance of knowledegable experts on which an examiner would be required to rely rather than to have to teach the examiner from scratch. While FSIIPA is not anxious to have fees increased, we feel that a substantial increase in fees for patent applications in the financial services arts would be acceptable if it were used to acquire the services of subject matter experts who could assist an examiner in examination and thus improve the efficiency and speed of examination.

Confidentiality and conflict of interest issues might be addressed by establishing a cooperative relationship with the Federal and State agencies that currently regulate the financial services industry. These agencies include the IRS, SEC, and State level insurance agencies. These government employees already operate with strict regulations concerning confidentiality and conflict of interest.

E. Fourth Proposal: Designation of Pertinent Portions, Without Further Explanation

FSIIPA suggests requiring applicants to designate the references that deserve closer looks when the references are numerous, and which portions of large references are most applicable FN. Applicants should not be required to apply references against their own applications, as proposed in the Notice. Such a designation would be of material assistance to examiners, without raising the issues of inequitable conduct that the PTO expressly recognized in its 1992 repeal of the former requirement for a "concise explanation."

FN or otherwise give an explanation for the reason the reference is cited, for example, that it was cited in a related application but is not known to be relevant to this application.

We note that this is the standard that the PTO requires of its own examiners - as a practical matter. Since 2000 or so, a majority of Office Actions have simply designated portions of the references, but have contained no designation of particular components or citation to reference numbers. The explanation of "pertinence" required

by 37 C.F.R. § 1.104(c)(2) is provided only rarely. The PTO should not require more of applicants, especially with respect to references of secondary relevance, than it requires of itself.

F. Fifth Proposal: Complete Examination in First Office Actions

The opportunity and incentive to "game the system" noted in the Notice (71 Fed. Reg at 38809, col. 1-2) exists only because applicants have come to expect that a first Office Action is essentially **never** an examination at all, but only an invitation by the examiner to point out which claim terms are pertinent and should receive their first genuine examination in the second Office Action. If the PTO shifted to a model in which first Office Actions were essentially always complete, with the possibility of allowance, the value of holding back prior art until after the first Action will simply disappear. Further, if the Office attacks the single greatest sink for wasted effort - misunderstanding of the technology and claim terms, and omitting consideration of those terms from the examination of independent claims - the Office's efficiency will increase dramatically, especially in the class 705 art units.

The following two proposals will have a dramatic effect on the PTO's "rework" load, and attenuate the "late filed prior art" problem, **almost immediately**.

First, the "pre-first Office Action" interview program should become the norm, not the exception, as least in Class 705. It should be routine practice for an examiner to phone the attorney of record to get a tutorial in the technology and vocabulary in the art. If a claim uses a term of art, the examiner cannot examine efficiently if he/she is unaware of its specialized meaning as a term of art. An Office Action based on a claim "as best understood" when that understanding is wrong is a wasted Office Action, for both the Office and the applicant, and invites "gaming the system."

Second, the existing requirements of 37 C.F.R. § 1.104(c)(2) and MPEP Chapter 2100 should be enforced. Every Office Action - including the first - must address every claim limitation, must "designate the particular portion" of each reference relied on, and must clearly explain the "pertinence" (except in the rare case of a § 102 rejection based on a reference that shows only the invention claimed). Every examiner should be required to put something on paper for every limitation of every independent claim. This simple step will increase the careful thought given every application - whether allowed or rejected - and will cut the PTO's "erroneous rejection" rate - currently 80% - almost immediately. Applications that should be allowed will simply pass to issue, without undue expenditure of the PTO's resources.

Just as important, prosecution cannot advance efficiently when an examiner is silent. Once an examiner puts something on paper, it's easy for an applicant to amend if the examiner is right, or identify and address the examiner's particular educational need if the examiner is wrong. However, when an examiner is silent, and the examiner's papers don't even indicate whether the examiner thinks a given claim limitation is explicit, inherent, or obvious, then an applicant cannot determine even how to respond, let alone give the examiner the particular help the examiner needs. It should be made clear throughout the Office that final rejection is premature until an applicant receives two complete Office Actions, so that the incentive for "short shrift" examination is removed.

As FSIIPA noted in our comments on the Subject Matter Guidelines (http://www.uspto.gov/web/offices/pac/dapp/opla/comments/ab98/fsiipa.pdf), enforcement of the existing rules to at least this degree is a statutory obligation of the Office under the Patent Act and Administrative Procedure Act.

IV. Legal Errors in the Notice

A. The PTO has No Authority to Create Safe Harbors

The Notice notes at several points that the essential *quid pro quo* for the entire rule package is the creation of a "safe harbor" for an individual that states that he or she "acted in good faith to comply with the disclosure requirements by having a reasonable good faith basis," proposed 37 C.F.R. § 1.56(f), and that "the Office is hopeful that a court in deciding a duty of disclosure issue will take the proposed safe harbor into account."

The Notice identifies no basis or factual grounding for its "hope." Nor does the Notice indicate an alternative procedure for making the evidentiary record that establishes "good faith" in choosing to not use the well-established Rule 97 Information Disclosure Statement. *Agfa Corp. v. Creo Products Inc.*, 451 F.3d 1366, 1378, 79 USPQ2d 1385, 1394 (Fed. Cir. 2006) (court rejects patent agents' assertions of good faith belief in non-materiality of references); *LaBounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*, 958 F.2d 1066, 1076, 22 USPQ2d 1025, 1033 (Fed. Cir. 1992) (rejecting inventor's and attorney's testimony of lack of intent when they decided not to submit a marginal reference).

The PTO has tried several times in the past to create similar "safe harbors," using language remarkably similar to that in proposed § 1.56(f). The courts have consistently declined to adopt them. *Digital Control Inc. v. Charles Machine Works*, 437 F.3d 1309, 1316, 77 USPQ2d 1823, 1829 (Fed. Cir. 2006) (expressly rebuffing the PTO's attempt to narrow the scope of "material" prior art that must be disclosed); *Dayco Products Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1365, 66 USPQ2d 1801, 1806 (Fed. Cir. 2003) (rejecting Rule 56 as a binding standard for inequitable conduct, and refusing to recognize MPEP 2001.06(b) as a statement of the law); *PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.*, 225 F.3d 1315, 1322, 56 USPQ2d 1001, 1006 (Fed. Cir. 2000) (declining to honor the "safe harbor" for cancelled claims articulated in 37 C.F.R. § 1.56); *see also Hill-Rom Co. v. Kinetic Concepts, Inc.*, 209 F.3d 1337, 1341 n. 1, 54 USPQ2d 1437, 1440 n. 1 (Fed. Cir. 2000) (old rule § 1.72, which promised that "The abstract shall not be used for interpreting the scope of the claims," applies only during intra-PTO proceedings, not during post-issue proceedings in the courts).

The Patent Office has no authority in areas of substantive law, and thus has no experience in the area of inequitable conduct or the duty of candor after a patent issues. The Patent Office does not participate in patent litigation or licensing. Consequently the Patent Office has developed no agency expertise in any of these areas, and fails to understand or explain the consequences of its proposed regulation. The entire rule package is based on an illusory *quid pro quo*, in which the PTO has neither authority nor means to deliver on its half of the bargain.

The PTO must take a consistent position: either this is a "substantive" rule, and thus outside the PTO's authority, or it is only a "procedural" rule, that will have no effect after a patent issues. It appears that the PTO recognizes that this rule package is "substantive," in the paragraph bridging 71 FR 38811 to 38812, but in order to avoid scrutiny under the Administrative Procedure Act and Regulatory Flexibility Act, characterizes it as "procedural." The PTO cannot have it both ways. Rules that are outside the agency's delegated authority and that are not the product of agency expertise do not fare well in Administrative Procedure Act litigation. They should be withdrawn now.

B. Rule 56 is Distinct from Judicial Doctrine of "Inequitable Conduct"

The Notice discusses only on obligations under the PTO's Rule 56, and avoids acknowledging applicants' separate obligations under the common law equitable doctrine of "inequitable conduct." The two are quite distinct from each other. They originate from different heads of authority, they have different scope, different threshold standards apply, different tribunals have subject matter jurisdiction, and the consequences are different. Most importantly, the PTO can amend Rule 56 on its own authority, but has no authority to alter the substantive law of inequitable conduct. Because the Notice disregards obligations to the court, the analysis is

faulty. Failure to "consider the relevant factors," such as the substantive law that Rule 56 was originally adopted to implement, will lead to the proposed Rule package being struck down as "arbitrary and capricious."

Notably, the Notice now takes positions that are 180° opposite the duties and interpretations of Rule 56 stated in earlier PTO pronouncements, and 180° opposite the duty of candor and good faith imposed by the courts:

The PTO's Position Today	**The PTO's Position in 1992, and the Courts'**
"It must be emphasized that there is no duty to disclose information to the Office if the information is not material." 71 FR at 38809 col. 1.	"Close cases should be resolved by disclosure, not unilaterally by applicant." *LaBounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*, 958 F.2d 1066, 1076, 22 USPQ2d 1025, 1033 (Fed. Cir. 1992)
"Rule 56 neither authorizes nor requires anyone to file unreviewed or irrelevant documents with the Office." 71 FR at 38809 col. 1.	"The public interest is best served, and the most effective examination occurs when, at the time the application is being examined, the Office is aware of and evaluates **all** information material to patentability." 37 C.F.R. § 1.56 (to which no amendment is proposed)
(same)	The PTO's contemporaneous interpretation of Rule 56 – which the agency cannot disregard without explaining why that earlier interpretation is wrong – is 180° opposite: "The applicant can submit information to the office for the examiner's consideration whether the information is considered material or not." 57 Fed. Reg. 2021, 2026 (Jan. 17, 1992)
same	"The Office believes that most applicants will wish to submit the information, however, even though they may not be required to do so, to strengthen the patent and avoid the risks of an incorrect judgment on their part on materiality or that it may be held that there was an intent to deceive the Office." 57 Fed. Reg. at 2023, reply to Comment 3.
same	The common law duty does not absolve non-disclosure of documents that were not reviewed: "an applicant who knew of the art or information cannot intentionally avoid learning of its materiality." *Bruno Independent Living Aids Inc. v. Acorn Mobility Services Inc.*, 394 F.3d 1348, 1352, 73 USPQ2d 1593, 1596 (Fed. Cir. 2005), *quoting FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415, 5 USPQ2d 1112, 1116 (Fed. Cir. 1987).
Applicants and practitioners mistakenly believe that people associated with a patent application must submit questionably or marginally relevant documents in order to ensure compliance with the § 1.56 duty of disclosure. 71 Fed. Reg. at 38809 col. 2.	First, this statement is factually inaccurate: applicants submit documents to comply with the common law duty of disclosure; compliance with the narrower requirements of Rule 56 is somewhat secondary. Second, the statement is contrary to law: "Close cases should be resolved by disclosure, not unilaterally by applicant." *LaBounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*, 958 F.2d 1066, 1076, 22 USPQ2d 1025, 1033 (Fed. Cir. 1992)

The proposed rules expressly request applicants to ***intentionally*** withhold references that would be "relevant" to a reasonable examiner, if they are not among the **most** relevant, based on the facts known on one particular day.

The proposed rule would require an extensive discussion of the correspondence between each reference and each claim.

The 1992 amendments to Rule 56 are "intended to provide the Office with the information it needs to make a proper and independent determination on patentability. It is the patent examiner who should make the determination after considering **all** the facts involved in the particular case." 57 Fed. Reg. at 2026, reply to Comment 22

In 1992, Commissioner Manbeck stated that the pre-1992 requirement for only a "concise explanation" should be repealed, because a "we became convinced that the potential harm that might be experienced by patentees during litigation due to inadvertent errors in such explanations outweighed the benefit to the PTO." Harry F Manbeck, Jr., *The Evolution and Issue of New Rule 56*, 20 AIPLA Q.J. 136, 143 n.17 (1992)

Courts invalidate agency rules on a *per se* basis when Notices fail to explain why contrary agency precedent no longer applies. *Fox Television Stations, Inc. v. Federal Communications Commission*, 280 F.3d 1027, 1042 (D.C. Cir. 2002); *Environmental Integrity Project v. Environmental Protection Agency*, 425 F.3d 992, 997 (D.C. Cir. 2005) (an agency may not "pull a surprise switcheroo" on the public, and adopt a rule that is the "inverse interpretation" of its former policy) **fair cite?**. On the current record, the IDS rule package cannot be adopted.

C. The PTO Lacks Statutory Authority to Refuse to Consider Prior Art

At 71 Fed. Reg. 38813-14, the Notice states that prior art submitted that does not comply with the proposed burdensome IDS rules will not be considered.

But only six years ago, the PTO's position was that it had a "duty to ensure that the patents it issues are valid." *Blacklight Power Inc. v. Dickinson*, 109 F.Supp.2d 44, 48, 55 USPQ2d 1812, 1815 (D.D.C. 2000), *aff'd sub non Blacklight Power Inc. v. Godici*, 295 F.3d 1269, 1273, 63 USPQ2d 1534, 1537 (Fed. Cir. 2002) (PTO officials have "obligation to assure that patents are properly examined, and valid."). Indeed, the PTO represented to the court that this substantive duty was *so paramount* that it was obligated to resort to "suspicious procedures" to carry it forward. *Blacklight v. Dickinson*, 109 F.Supp.2d at 54 n.10, 55 USPQ2d at 1820 n.10.

It is difficult to reconcile the PTO's representations to the court in 2000 with its representations of its duties to the public today as stated in the Notice. It is also difficult to reconcile the PTO's "substantive" characterization in *Blacklight* in 2000 with its "procedural" characterization today - the only unifying theme in the PTO's legal interpretation appears to be the convenience of the day. The rule package is not likely to be affirmed by a court.

The PTO proposes to issue patents over highly-pertinent prior art that was presented to it but was not considered. When victims of those unexamined patents complain to Congress a few years hence that they have been forced to expend typically $1-3 million to defend against a patent that the PTO failed to examine in order to avoid costs of perhaps $1,000-3,000, how does the PTO intend to explain to Congress its refusal to consider that art, and its repeal of the fee that funds its ability to consider that art?

D. The Proposed Elimination of the IDS Fee is Contrary to Law

35 U.S.C. § 41(d)(2) states a mandatory obligation for the PTO to engage in economically-rational pricing: "The Director **shall** establish fees for all other processing, services, or materials relating to patents ... **to recover the average cost** to the Office of such processing, services or materials..." The proposal to eliminate the IDS fee is contrary to law. *See American Medical Assn v. Reno*, 57 F.3d 1129, 1135 (D.C. Cir. 1995) (agency

violates the law when a statute requires a "cost recovery" fee model and an agency fails to keep ependitures correlated to costs). The proposal is also arbitrary and capricious.

In 1992, the Office noted that the fee for after-first-action IDS filings was intended to compensate for the added costs of later examination. Matching revenues to costs is elementary economics, and is fundamental to the financial freedoms the PTO was given in 2000 when it was made a “Performance Based Organization.” Decoupling costs and fees will create perverse incentives, and further skew the misallocation of examining resources that arises under the current Office policy of declining to calibrate examining time to application complexity.

Current practice recognizes that examiners are the party in the patent system that are in the best position to evaluate references efficiently, but they must be paid to do so. When a reference is of only marginal relevance, the system should not require a written discussion of it - that's simply inefficient “busy work.” Examiners are well-situated to look at a reference, note its marginal relevance, and move on, without spending inordinate and unproductive time documenting that fact.

It's inefficient for the PTO to simply create new costs that do not advance prosecution, and inconsistent with the Office's cost-efficiency duties under 35 U.S.C. § 2(b)(2)(F), the Administrative Procedure Act, and the Paperwork Reduction Act.

The alternative recommendation above, that the PTO require applicants to designate the references that deserve closer looks, and which portions of which references are most applicable, but without discussing them or applying them against their own claims, that the PTO set its fees to match its costs, and that examiners be given examination time commensurate with the fees paid to conduct that examination, is a far more efficient use of everyone's time and fair way to apportion burdens.

The Patent Office's rulemaking authority is bounded by concerns of "cost effectiveness." 35 U.S.C. § 2(b)(2)(F). The IDS rule is contrary to law.

Similarly, the Notice of Proposed Rulemaking is procedurally inadequate - the Notice contains no consideration of *overall* costs, apparently conceding that the effect will be to sharply increase costs of the patent system as a whole. This defect that cannot be cured in a Notice of Final Rulemaking. At a minimum, the Office must start over with a new Notice of Proposed Rulemaking, with a proper disclosure of costs to the Office of management and Budget.

E. This Rule Package is Beyond the PTO's Procedural Rulemaking Authority

The analysis of administrative law issues in the Notice suggests that the PTO may have received advice below the standard of care expected of a legal professional in the field.

For example, the Notice misquotes the cases cited - the Notice never mentions “encodes a substantive judgment” as a test. The PTO's “substantive judgment” that limiting application pendancy and patent term extension is more important than making sure that the examiner has access to and considers all prior art, renders these rules “substantive” and therefore outside the PTO's rulemaking authority. Further, the “encodes substantive judgment” test is applied with respect to all parties, not only those who are presently before the agency. For example, the interests of future accused infringers must be considered. The PTO does not dispute that it proposes to issue patents over relevant prior art that would have been considered under current Rule 56, but is either to be withheld or placed in the file without being considered, under new Rule 56. The PTO does not dispute that these less-examined patents will have substantive effects on those future accused infringers. If the PTO does not intend to carry out its obligation to protect the public domain by examining applications against this art, to whom does the PTO propose to delegate its duty?

The Notice also fails to consider the entire administrative law. Other circuits and several recent cases of the D.C. Circuit apply a “substantive effect” test: procedural rules are only “agency housekeeping” and “agency internal operations.” Anything affecting “rights or interests” outside the agency, or that affects the right of parties to avail themselves of an administrative adjudication is “substantive.” *E.g.*, *Air Transport Ass'n v. Dep't of Transportation*, 900 F.2d 369, 378 (D.C. Cir. 1990). The proposed Notice expressly states that the right of an applicant to obtain an administrative adjudication of “marginally relevant documents” is revoked. 71 Fed. Reg. at 38809 col. 2. Under the “substantive effect” test, the proposed reinterpretation of Rule 56, and the redraft of Rules 97 and 98, are undeniably “substantive.”

The rule package cannot be promulgated by an agency that lacks substantive rulemaking authority.

V. Other Defects

A. The Proposed Rules Will Impose *Billions* of Dollars in Costs on Competitors

When a competitor becomes aware of another's patent, the most common and economically-important response is to “design around” the patent. Most “design-arounds” are based on the prior art. Literally *billions* of dollars of economic decisions and economic activity depend on competitors having a complete “portfolio” of prior art, so that they will have all of the “design-around” options available under the law. The most efficient way to make that prior art available is the file history. If the Patent Office rules reduce the prior art available in the file history, literally *billions* of dollars per year will be lost: business will either have fewer “design around” options, or must perform redundant prior art searches to re-discover the prior art that - under today's rules - applicants make available as a matter of course.

This cost will fall most heavily on small entities. Because litigating invalidity is far more expensive than litigating infringement, as a practical matter, small entities are more constrained to use “design-around” strategies rather than challenges to the facial validity of a patent. If “design-arounds” become harder, the ability of small entities to compete within the full bounds of the law will be differentially reduced.

The Patent Office's rulemaking authority is bounded by concerns of "cost effectiveness" and "competitiveness." 35 U.S.C. § 2(b)(2)(F). The Notice is starkly silent on this statutory mandate. The IDS rule is contrary to law, and cannot be adopted. *See, e.g.*, *Public Citizen v. Mineta*, 340 F.3d 39, 57-58 (2d Cir. 2003) (invalidating a rule that is "cheaper, without more," because agency failed to consider the total balance of costs and benefits on all parties).

B. No Provision for Prior Art Developed in Companion U.S. Applications

The Notice correctly notes that prior art often comes to light after the first Office Action, and makes appropriate allowances for a few sources. However, the Notice fails to recognize the single largest source of late-developed prior art: related U.S. applications. Applicants are obligated to disclose prior art in all other related applications, even if it arises after the first Office Action in the related application. *PerSeptive Biosystems Inc. v. Pharmacia Biotech Inc.*, 225 F.3d 1315, 1321-22, 1331, 56 USPQ2d 1001, 1005-06, 1013 (Fed. Cir. 2000) (finding a daughter patent unenforceable, even though the information had been disclosed in the parent and the examiner found on the record that the information raised no issue of patentability); *Elk Corp. of Dallas v. GAF Building Materials Corp.*, 168 F.3d 28, 31, 49 USPQ2d 1853, 1856 (Fed. Cir. 1999) (rendering a patent unenforceable when prior art developed in a daughter application was not disclosed to the examiner of the parent application).

The failure of this Notice to consider this relevant factor is especially concerning in view of the “Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims” (71 Fed. Reg. 48, January 3, 2006) rule package. The “Continuing Applications” rule package would require all claims for all contemporaneous inventions to be filed together, so that they can be formally divided. The effect of the “Continuing Applications” rule package will be that more

applications are linked by direct priority claims, and are thus subject to the higher duty of cross-citation of prior art. Yet this IDS rule package makes it extraordinarily costly to cross-cite art that arises from the situation that the "Continuing Applications" rule package proposes to create.

This incompatibility between the two rule packages suggests that both rule packages are arbitrary and capricious. *See Mid-Tex Electric Cooperative Inc. v. Federal Energy Regulatory Comm'n*, 773 F.2d 327, 357-60 (D.C. Cir. 1985) ("double whammy" that catches parties between two different rules is invalid, and cannot be left to case-by-case resolution; rule is further infirm for failure to consider balance of economic effects).

C. The Requirement for "Specific Feature(s), Showings(s) or Teachings(s)" Is Both Pointless and Excessively Burdensome - On the PTO's Admitted Facts the Costs Will be in the *Billions* of Dollars, but the Practical Savings are Much Smaller

Proposed 37 C.F.R. § 1.98(a)(3)(C)(iv)(C) would require an "identification of specific feature(s), showing(s) or teaching(s) that caused a document to be cited."

The PTO admits that the annual burden merely of complying with the proposed rules is **2.8 million hours per year**. At the average rate for patent attorneys reported by the AIPLA, that is over **$800 million per year**. This does not include all the additional costs outlined below, which likely add about $1 billion more per year. The PTO does not directly state its estimated cost savings; however, the slides used in the "Town Hall" meetings this spring suggest that the PTO estimates its savings at about $100 million per year. The Notice does not state any rationale for imposing a 10-to-1 cost increase on the public, let alone make any attempt to meet the agency's obligation to engage in rational cost-benefit analysis.

Further, the time estimates proposed in the Notice are off by a factor of at least 10, perhaps 1000. It appears the PTO based its time estimates on the time the Office expends in writing a typical Office Action based on a single reference. This is totally inapposite to an applicant's preparation of an IDS. The reason is simple:

An examiner is allowed to be wrong. An applicant must be 100% right.

As a former Deputy Assistant Commissioner noted in the April public forum with John Doll in New York, examiners have no liability and face no repercussions for being wrong. In most Office Actions, the examiner applies whatever reference is available, as best it can be applied, without formal accountability for ensuring that the reference(s) really does/do meet the claims.

On the other hand, if an applicant concedes too much in a Background or IDS discussion, the patentee will be bound by that admission. If an applicant admits too little, the patentee faces charges of inequitable conduct. The PTO conceded the impossibility of complying with such rules as its rationale for the 1992 removal of the requirement for a "concise explanation" of submitted prior art. The Office does not explain its change of mind, and should not replow that ground.

The IDS discussion that the Office proposes will require great care, and will take, on average, 12-50 hours *per reference*. If the average application subject to the rule has 30 references, an average response will take several months of full time work to prepare, at a cost of several hundred thousand dollars. If this involves 10,000 applications per year, the cost is, again, on the order of **one billion dollars**. The "Estimated Time Per Response" of "1.8 minutes to 12 hours," apparently asserted on a *per application* basis, is arbitrary and capricious. The actual burdens are entirely out of proportion to any savings the PTO has ever suggested it might achieve.

If applications are not filed or pursued because of these rules, the effect will be the destruction of further ***billions*** of dollars of business value. The additional issues of inequitable conduct or questionable validity likely to be litigated may add several hundred million dollars per year of incremental litigation costs.

The Notice fails to consider a rational balancing of even those costs it acknowledges, and a set of costs that are likely even larger. The rule package fails the Administrative Procedure Act, the Regulatory Flexibility Act, the Paperwork Reduction Act, and several Executive Orders.

D. The Costs of the IDS Rules Will Fall Selectively and Discriminatorily on Small Entities and the Most Valuable Patent Applications

The Rule package overlooks the economics that drive applicant behavior.

First, patent applications with lots of references arise out of only one circumstance: a patent application to cover a valuable invention. Applicants, potential competitors, and the public interest require that these be the applications to which the PTO allocates its most thorough search and examination. Applicants will be happy to pay the PTO's costs for doing so. If the PTO sets its fee levels to match its costs – and passes those fees on to examiners in the form of increased examining time, instead of practicing "fee diversion" between the business office and the examiners' offices – the PTO will rapidly find that applicants and examiners will both have incentives and resources necessary to see that the important applications are examined properly.

Second, important patent applications differentially arise from small entities: when a small entity invests in a patent, the small entity hopes to build a business around that invention. Small entities cannot afford to litigate – the strength of the patent must be thoroughly vetted during prosecution. This typically involves a thorough patentability search, and filing many of the references discovered.

Thus, the PTO proposes to preferentially penalize small entities, and the inventors of the most economically-important inventions. The proposed IDS rules are bad public policy, and violate the Regulatory Flexibility Act and Executive Order 13272.

E. The Analytical Technique in the Notice is Flawed, and Has Been Disapproved by the Courts

Basing a rule on numerical cutoffs is impermissible, if the agency fails to consider the effect of the rule on the remaining 15% of parties. *Levine v. Apker*, 455 F.3d 71, 85-86 (2d Cir. 2006) (agency may not set an arbitrary numerical cut-off without considering all the factors set forth by Congress). For most applications, 20 references is indeed "sufficient." For others, it isn't - applicants do not incur costs for economically-irrational reasons. Statistical analyses that assume that only "average" applicants should be permitted to apply for patents, and that do not consider the facts of individual applications, without considering the "cost effectiveness" of the consequent rule, are invalid. 35 U.S.C. § 2(b)(2)(F).

The Notice engages in circular logic, by noting that the proposed limit of 20 references was "deemed sufficient" by those applicants who did not exceed it. However, the Notice is **absolutely silent** on any showing that the limit of 20 references might be "sufficient" for those applications in which the applicant submitted more. The rule package is fatally flawed for failure to "consider the relevant factors" with respect to the very applications the rule proposes to affect.

Experience teaches that the usual use of the word "deemed" by the PTO is to signal a strawman that lacks legal or factual support, that will be withdrawn if a *bona fide* rebuttal is presented. That certainly appears to be the use of the word here. There is no support in the Notice for "deeming" 20 references "sufficient" for **all** applications. The assertion may now be withdrawn, and with it, the proposed rule.

F. The Rule Proposal Demands that Applicants Perfectly Predict the Future

The rule proposal demands that applicants perfectly predict a court's future claim construction, and make materiality determinations with respect to that construction. Courts often do not credit attempts to explain good faith in such circumstances. *Agfa Corp. v. Creo Products Inc.*, 451 F.3d 1366, 1378, 79 USPQ2d 1385, 1394

(Fed. Cir. 2006) (rejecting patent agents' conclusions of non-materiality under the construction that the agents assumed would be applied, and assertions of good faith).

Similarly, the rule proposal also demands that applicants perfectly predict all prior art that might arise, and make materiality determinations with respect to all combinations that might arise in the future. This prediction must be made before the examiner has performed his/her first search.

The Notice instructs applicants to intentionally withhold art that would be relevant to reasonable examiners in such circumstances, but proposes no remedy or other safe harbor for the substantive consequences of the rule. The PTO does not propose to repeal the ethics rules (37 C.F.R. § 10.23(c)(5)) that could cost a practitioner his/her license to practice for guessing wrong.

The rule proposal is arbitrary and capricious, and fails to consider the relevant factors.

VI. Conclusion

FSIIPA is very concerned that the PTO would suggest that applicants should withhold information, and that the PTO will no longer consider information presented to it. We are very concerned that the Notice ignores express statutory commands, takes away applicants' opportunities to comply with Federal Circuit substantive law (or makes it so expensive as to effectively withdraw the opportunity), fails to acknowledge or reconcile past agency precedent, fails to explain why that precedent is being abandoned, advances flawed factual bases, proposes truly astronomical costs, and fails to even acknowledge, let alone offset, the legal consequences of the proposed rules.

The Examination of Claims, Continuation, and IDS rule packages are bad policy. They are contrary to the PTO's statutory authority. The Notices fail to observe procedural requirements. They should withdrawn.

Sincerely,

Dean Alderucci