

VIA FAX 202 395-6566
Hon. Susan E. Dudley
Administrator
Office of Information and Regulatory Affairs
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

June 15, 2007

Re: Comments on Patent Office's Proposed "Continuations" rule package (0651-AB93, 71 Fed. Reg. 48) and "Examination of Claims" rule package (0651-AB94, 71 Fed. Reg. 61)

Dear Ms. Dudley:

We write as a consortium of innovative companies and universities who are users of the patent system, to urge that you return these two rule packages to the Patent and Trademark Office (PTO) for reproposal and request an "economically significant" impact analysis. We also request a meeting to explain in more detail our view of why these rules need to be studied before they can be implemented.

We have been actively involved in seeking ways to improve the patent system at all levels, particularly at the PTO. We recognize the importance of making the patent examination process more efficient. But, because the PTO did not do – or at least did not disclose – *any* analysis of the effect these two rule packages might have on innovation or the economy, or on *internal efficiency* (as opposed to mere input), we are very skeptical that the most cost-effective solution involves curtailing of continuations and the number of claims per application. Application backlogs at the PTO might be resolved by less restrictive means, including internal reforms at the PTO itself. Restrictions on continuation applications are particularly suspect, because these patents tend to generate the highest filing and maintenance fees for proportionally the least amount of work – it appears that current PTO management is trying to do something about today's problem by restricting tomorrow's revenue flow.

The extensive comments received from the public in response to the Notice of Proposed Rulemaking discuss the profound economic impact the rules could have and demonstrate the need for an assessment of these effects. For example, the April 27, 2006 letter of the Small Business Administration documented the significant economic harm that these rules would cause for small entities (in contravention of Executive Order 13272) and specifically recommended that the PTO conduct a supplemental Initial Regulatory Flexibility Analysis before publishing the final regulations. The PTO did not do so. A full regulatory impact analysis, as we suggest, would resolve this inter-agency conflict.

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The PTO has certified that there would not be significant economic impact to small entities by noting that the number of small entity patents based on continuations in one sample year (2005) does not represent a majority of all the small entity patents issued (though it was greater than 30%). However, we believe the PTO's definition of small entity status is misleadingly under-inclusive, as noted by the Office of Advocacy of the U.S. Small Business Administration. This raises a concern that the PTO's information quality may be deficient in a number of other ways that are more subtle. We also believe this statistical information ignores prior work, which has established that the patents that are most commercially important and support investment in innovative technologies are more often than not based on multiple continuations, contain more claims, and take longer to examine. In other words, the importance of patents for economic development of technology vital to American competitiveness is highly correlated to the population of patents that would be encumbered, and possibly simply abandoned, under these rules.

A group of leading scholars, including Professor Mark Lemley of Stanford and Circuit Judge Kimberly Moore, have demonstrated in the most comprehensive study on the issue ever performed that valuable US patents share the following characteristics:

They tend to be issued to individuals or small companies, not to large companies.

They spend longer in prosecution than ordinary patents.

They contain more claims than ordinary patents.

See John R. Allison, Mark A. Lemley, Kimberly A. Moore & R. Derek Trunkey, *Valuable Patents*, 92 GEO. L.J. 435, 436-38 & n.6 (2004). Specifically, the authors of this study found that valuable patents, on average, had 19.8 claims, compared to normal patents which had 13.2 claims on average. The "Claim" Rule would disproportionately encumber these patents. Similarly, they found that valuable patents, on average, resulted from 2.57 different applications (meaning they were continuations, continuations-in-part or divisionals), compared to normal patents which resulted on average from 1.54 different applications. Since the average is 2.57, this means that a large number of valuable patents are based on three or more continuing applications, the patents to be almost entirely eliminated by the "Continuations" Rule.

There are sure to be legal challenges to these rules if promulgated, which could very well adversely effect whether promulgation of these rules would be cost-effective. This is another reason that supports deferring implementation until economic impact can be fully studied, which may open the door to a cost-effective approach that could withstand legal challenges and achieve the PTO's objective of curtailing continuations.



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In conclusion, we hope that you will agree to require these rules to be repropose with a regulatory analysis as an “economically significant” rule. We would welcome the opportunity to discuss these issues in person with your office. If your office wishes to discuss this letter or arrange a meeting for further discussions, please contact either Phil Kiko at 202-672-5509 or Steve Maebius at 202-672-5569 (both of Foley & Lardner LLP, on behalf of the signatories listed below).

Sincerely,

Sean Murdock
Executive Director
NanoBusiness Alliance

Charles Rancourt
Director, Technology Transfer
Rensselaer Polytechnic Institute

Allan Rothstein, Chairman
F. Mark Modzelewski, Vice-President
NanoDynamics

John Miller
Vice-President
Arrowhead Research Corporation

Josh Wolfe
Partner
Lux Capital

Thomas Fitting, Esq., Ph.D.
Chief Patent Counsel
The Scripps Research Institute



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cc: Hon. Carlos M. Gutierrez
Secretary of Commerce
U.S. Dept. of Commerce
Washington, DC 20230

Hon. Robert Portman
Director
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Hon. Jon 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