

From:

Sent: Friday, August 13, 2010 4:33 PM

To: Restriction\_Comments

Cc: Nicholas A. Fraser

Subject: Belzer comments on June 10, 2010 FR Notice RE Restriction Practice

Please see the attached PDF containing my comments on the June 10, 2010, Federal Register notice. A reply confirming receipt would be greatly appreciated.

Regards,

Richard B. Belzer

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**RICHARD B. BELZER**

August 13, 2010

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Attn: Ms. Linda S. Therkorn  
Submitted via [Restriction\\_Comments@uspto.gov](mailto:Restriction_Comments@uspto.gov)

**Subject: Comments on Proposed Changes to Restriction Practice in Patent Applications, 75 Fed. Reg. 33584 (June 14, 2010)**

This letter is a response to the U.S. Patent and Trademark Office's June 2010 FR Notice request for comment concerning possible changes in restriction practice.<sup>1</sup> It is organized differently from the Notice, focusing primarily on the Notice's procedural defects and the USPTO's persistent noncompliance with statutory and administrative procedures related to regulation and information resources management. Failing to adhere to required procedures, which the Office seems to think are optional, will continue to damage its reputation and inflame its relationship with its customers, and ultimately with Congress.

Sections II to V describe defects in the USPTO's administrative practice and its noncompliance with longstanding statutory information resources management policies and practices.

- Section II shows that the Office's guidance on restriction practice does not comply with the Paperwork Reduction Act. The burden imposed by Office guidance is thus illegal and subject to easy challenge.
- Section III recounts the USPTO's persistent evasion of Executive Order 12,866. All regulatory actions are subject to its provisions, and in recent years the USPTO has undertaken numerous actions with substantial regulatory content outside of the Executive Order framework.

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<sup>1</sup> U.S. Patent and Trademark Office, 2010. "Request for Comments on Proposed Changes to Restriction Practice in Patent Applications"; Docket No.: PTO-P-2010-0030, 75 Fed. Reg. 33584-33587 (hereinafter "June 2010 FR Notice").

- Section IV shows that the USPTO has peculiarly interpreted its statutory authority to require restriction since 1953. The statute only authorizes the Office to require restriction when inventions are “independent and distinct.” The USPTO’s implementing regulation is essentially consistent with the statute, but the guidance in the MPEP is not because it interprets “and” to mean “or.” While it is (remotely) possible that the USPTO could reinterpret Boolean operators this way, the proper way to make this case is through rule making, which the USPTO has never undertaken.
- Section V explains why much of what the USPTO issues in the form of guidance is actually regulation covered by the Administrative Procedure Act (APA). The Office is reminded (yet again) of its obligations under the APA and a 2007 government-wide directive on good guidance practices. To date, the USPTO has given short shrift to the APA and ignored the directive.

Finally, Section VI sets forth eight recommendations that the USPTO should follow if it is serious about making socially beneficial reforms to restriction practice and restoring trust in its competence to fairly and competently administer patent law. These recommendations are summarized below:

- Recommendation #1: Restore restriction practice to the limited purposes established by law, and refrain from trying to use restriction practice as an indirect tool to manage agency resources.

The USPTO uses restriction practice as a tool for managing internal resources, not for the limited purposes authorized by law. This is a source of considerable conflict between the Patent Office and its customers, and it appears to be a point of serious legal risk if any of these customers decides to undertake a legal challenge. This legal risk is greatly enhanced because the USPTO lacks valid OMB Control Numbers for the paperwork burdens its actions impose.

- Recommendation #2: Revise MPEP Chapter 800 to conform to the Patent Act.

While technically a subset of Recommendation #1, the revision of MPEP Chapter 800 consistent with Patent Law deserves explicit mention. The problem is not the Patent Office’s regulations implementing the law. The problem is MPEP Chapter 800 is not faithful to the Patent Office’s regulations.

Section 800 was not promulgated under the APA, yet the interpretation it gives to Patent Law could only be justified if the APA had been followed.

- Recommendation #3: Retroactively rescind both the Love and Bahr Memoranda, effective on the day each was issued.

These memoranda are major regulations that the Patent Office issued without adherence to APA procedures, without compliance with the Regulatory Flexibility Act and other administrative requirements such as Executive Order 12,866, and in violation of the Paperwork Reduction Act. For the USPTO to begin to earn any confidence that it is serious about restriction practice reform and that it respects the rule of law, they must be promptly rescinded with an effective date identical to the date of issue, so that no applicant is materially harmed by their illegal imposition.

- Recommendation #4: Prepare a valid and reliable inventory of all paperwork burdens contained in rules, the MPEP, and internal directives. Publish this inventory for public comment, make all public comments readily accessible on the USPTO web site, and respond to these comments in a respectful manner.

The available public evidence indicates that the USPTO is woefully out of compliance with the Paperwork Reduction Act. The first step toward remedying this is to develop and publish for public comment this inventory, which has been required by law for decades but apparently never implemented.

- Recommendation #5: Fundamentally reform and restructure the USPTO's information resources management office so that it is genuinely independent of the Patent Office's programmatic offices and has the necessary expertise and requisite authority to fully comply with the Paperwork Reduction Act.

There is overwhelming evidence that the USPTO's information resources management office is not fulfilling its PRA responsibilities. From the outside, it cannot be discerned if the problem is limited competence, insufficient authority, or both. The law requires USPTO to make this office fully independent from the various program offices and fully capable of reaching independent conclusions about burden, practical utility, and other PRA criteria. Without this reform, the USPTO will continue to commit egregious substantive and procedural violations and expose the USPTO to potentially catastrophic litigation.

- Recommendation #6: Reorient the Office of General Counsel (OGC) away from policy and program advocacy and toward compliance with

administrative law, including the Administrative Procedure Act, the Regulatory Flexibility Act, and Executive Order 12,866.

In recent years, OGC appears to have abandoned its appropriate role as a neutral guardian of the USPTO's broadest interests, including adherence to the rule of law, in favor of becoming an advocate and facilitator of policies and programs of the USPTO's rule making offices. This has left the Patent Office highly vulnerable to serial (and successful) legal challenges.

- **Recommendation #7:** Direct the Office of General Counsel to remove all regulatory requirements from the MPEP.

It is a violation of the APA to use guidance as a backdoor way to promulgate regulation. A government-wide directive issued by OMB in 2007 reinforces this legal prohibition. Yet, this appears to have become a generations-long habit at the USPTO. The Manual of Patent Examining Procedure (MPEP) is chockfull of regulatory requirements—several thousand of them, by the rough accounting presented here.

- **Recommendation #8:** Direct the Office of General Counsel to fully, faithfully, and fairly implement OMB's 2007 directive on Good Guidance Practices.

Whereas Recommendation #7 addresses the existing morass of guidance-cum-regulation issued by the Patent Office, Recommendation #8 is forward-looking. Lasting institutional changes are needed within the USPTO to stop similar actions from occurring in the future. This should be OGC's responsibility.

#### **I. The June 2010 FR Notice is a Text without a Context, and thus a Pretext**

The June 2010 FR Notice is odd in several respects, but none more so than the fact that it omits any reference to how the USPTO currently administers restriction practice. A reasonable inference is that the USPTO made a conscious decision not to include references to current practice to avoid the implication that it was seeking comment on them. These practices are manifest in a pair of internal memoranda to the examining corps that are covered by the Administrative Procedure Act (APA), the Regulatory Flexibility Act (RFA), the Paperwork Reduction Act (PRA), and Executive Order 12,866. These memoranda violate each of these statutory and administrative requirements.

*A. The June 2010 FR Notice Contains Material Omissions*

The Notice asks for public comment on restriction practice as if MPEP Chapter 800 was the only official word extant on the subject. It isn't. On April 25, 2007, the USPTO issued a directive to examiners on restriction practice styled as a "memorandum" signed by Deputy Commissioner for Patent Examination Policy John Love.<sup>2</sup> This directive (the "Love Memorandum") had highly significant effects on applicants, in terms of both paperwork burdens and economic effects, because it imposed new and material regulatory burdens.

Applicants did not know about these burdens, however, because the USPTO kept the Love Memorandum secret for over two years.<sup>3</sup> On January 21, 2010, the USPTO issued a new directive to examiners on restriction practice, also styled as a "memorandum," signed by Acting Associate Commissioner for Patent Examination Policy Robert W. Bahr.<sup>4</sup> This directive (the "Bahr Memorandum") supersedes the 2007 Love Memorandum but is essentially identical in content. The main difference between the two documents is the Bahr Memorandum was made public in a timely manner.<sup>5</sup>

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<sup>2</sup> John Love, Deputy Commissioner for Patent Examination Policy, 2007. Changes to Restriction form paragraphs [sic]," April 25. Available at: [http://www.uspto.gov/web/offices/pac/dapp/opla/documents/20070425\\_restrictio\\_n.pdf](http://www.uspto.gov/web/offices/pac/dapp/opla/documents/20070425_restrictio_n.pdf) (hereinafter "Love Memorandum")

<sup>3</sup> Applicants typically found out only indirectly if they received office actions that implemented the Memorandum. Ultimately, the Love Memorandum was leaked, and only then did the USPTO post a copy online.

<sup>4</sup> Robert W. Bahr, Acting Associate Commissioner for Patent Examination Policy, 2010. "Changes to Restriction Form Paragraphs." January 21. Available at: [http://www.uspto.gov/patents/law/exam/20100121\\_rstrctn\\_fp\\_chngs.pdf](http://www.uspto.gov/patents/law/exam/20100121_rstrctn_fp_chngs.pdf) (hereinafter Bahr Memorandum).

<sup>5</sup> Both the Love and Bahr Memoranda suffer another procedural defect, one that is fatal even if all other procedural arguments are dismissed. According to the Foreword of the MPEP:

Orders and Notices still in force which relate to the subject matter included in this Manual are incorporated in the text. Orders and Notices, or portions thereof, relating to the examiners' duties and functions which have been omitted or not incorporated in the text may be considered obsolete.

The Bahr Memorandum (signed January 2010) was "omitted or not incorporated into the text" of the 8<sup>th</sup> Edition, Revision 8 (published July 2010). The Love Memorandum

Of course, the USPTO was required to publicly and promptly disclose the Love Memorandum pursuant to the APA (5 U.S.C. § 552(a)(2)), irrespective of whether they were deemed regulation, guidance, internal policy statements, instructions to staff, or “memoranda.”<sup>6</sup> Because senior USPTO officials—most notably, the General Counsel—were presumably very familiar with the APA, it cannot have been an accident or oversight that led the Office to “forget” to publish. Rather, a decision was made, at the highest levels in the Patent Office, to withhold public disclosure. In Section V(C) below, the case is made that the Love Memorandum was kept secret because senior USPTO officials knew, or reasonably should have known, that the Office very likely lacked any statutory authority to issue it, and wished to evade regulatory oversight by OMB and the scrutiny of the Small Business Administration Office of Advocacy.

*B. The Love and Bahr Memoranda Are Rules Covered by the Administrative Procedure Act*

Although styled as “memoranda” to the examining corps, the Love and Bahr Memoranda are APA rules because they are “agency statement[s] of general ... applicability and future effect designed to implement, interpret, or prescribe law or policy.”<sup>7</sup> Thus, both memoranda were subject to the APA,<sup>8</sup> the

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(signed April 2007) was “omitted or not incorporated into the text” of Revision 6 (published September 2007) or Revision 7 (published July 2008). Under the legal scenario most favorable to the USPTO, therefore, the Love Memorandum was in force only from April to September 2007, and the Bahr Memorandum was in force only from January to July 2010. Conversations with patent applicants and attorneys show persuasively that the USPTO has enforced both Memoranda without interruption, irrespective of the language in the MPEP Foreword.

<sup>6</sup> 5 U.S.C. § 552(a)(2): “Each agency, in accordance with published rules, shall make available for public inspection and copying-- ... (B) those statements of policy and interpretations which have been adopted by the agency and are not published in the Federal Register; (C) administrative staff manuals and instructions to staff that affect a member of the public; ...”

<sup>7</sup> 5 U.S.C. § 551(4): “[R]ule’ means the whole or a part of an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or describing the organization, procedure, or practice requirements of an agency...”

<sup>8</sup> 5 U.S.C. § 553(b): “General notice of proposed rule making shall be published in the Federal Register...”. 5 U.S.C. § 553(c): “After notice required by this section, the agency shall give interested persons an opportunity to participate in the rule making

RFA,<sup>9</sup> and the principles and procedures of Executive Order 12,866.<sup>10</sup> Moreover, these memoranda were economically significant rules, as defined in Section 3(f)(1) of Executive Order 12,866, because their effects were virtually certain to exceed \$100 million per year. The USPTO's decision to evade OMB oversight reflects a persistent pattern in which Patent Office officials willfully ignore responsibilities other federal agencies routinely fulfill.

There is substantial overlap between the Love and Bahr Memoranda and the USPTO's 2007 proposal to severely restrict Markush practice.<sup>11</sup> In the proposal, the USPTO implausibly asserted that the proposed Markush practice rule was "not significant" under Executive Order 12,866.<sup>12</sup> About nine months later, after extensive and highly critical public comment, the Patent Office published an interim Regulatory Flexibility Analysis (IRFA) admitting to direct impacts on small entities alone that easily exceed \$1 billion per year.<sup>13</sup> How

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through submission of written data, views, or arguments with or without opportunity for oral presentation." 5 U.S.C. § 553(d): "The required publication or service of a substantive rule shall be made not less than 30 days before its effective date..."

<sup>9</sup> 5 U.S.C. § 601 *et seq.* Actions subject to the APA are automatically subject to the RFA; see § 603(a). Evading the APA thus enables evasion of the RFA.

<sup>6</sup> William J. Clinton, 1993. "Executive Order 12866--Regulatory Planning and Review." 58 Fed. Reg. 51735-44. All significant draft regulatory actions must be submitted to the Office of Management and Budget (OMB) for prior review, and those which are economically significant must be accompanied by Regulatory Impact analyses. See Section III below.

<sup>11</sup> See U.S. Patent and Trademark Office, 2007. "Examination of Patent Applications That Include Claims Containing Alternative Language; Proposed Rule [0651-AC00]." 72 Fed. Reg. 44992-5001.

<sup>12</sup> 72 Fed. Reg. 44999, col. 2.

<sup>13</sup> U.S. Patent and Trademark Office, 2008. "Examination of Patent Applications That Include Claims Containing Alternative Language; Proposed Rule; Request for Comment on Initial Regulatory Flexibility Analysis" [0651-AC00], 73 Fed. Reg. 12679-84. The IRFA is written, presumably by intent, in an impenetrable manner, and with limited supporting documentation rendering it neither transparent nor reproducible. Assuming only that applicants acted to preserve the economic value of their inventions, the proposed rule would have forced a small number of applications to be divided into many tens of new applications, each costing (according to the IRFA) about \$6,000 in fees to the USPTO and \$10,000 in attorney costs. While it is likely that some applicants would have chosen to abandon claims to reduce these costs, the value of abandoned

much additional cost the Bahr Memorandum imposes is an empirical question, but direct costs on a significant number of small entities are certain to be substantial.

*C. The June 2010 FR Notice Is a Pretext, not a Genuine Request for Comment*

Despite the fact that the Bahr and Love Memoranda substantially define the Patent Office's actual restriction practice, the June 2010 FR Notice mentions neither document. Thus, the context for the Notice is simply missing. That means the Notice is a pretext. Is the USPTO seeking to retroactively legitimize the Bahr Memorandum?<sup>14</sup>

**II. Paperwork Reduction Act Violations Related to Restriction Practice**

In recent years, the USPTO has routinely and materially violated the Paperwork Reduction Act (PRA).<sup>15</sup> The Patent Office fails to provide objectively supported estimates of burden<sup>16</sup> and bases crucial components of its burden estimates on the mere "belief" of unnamed agency staff. The Patent Office does not provide estimates that are transparent or reproducible,<sup>17</sup> and it ignores

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claims must be accounted for under Executive Order 12,866. Thus, the costs accounted for in the IRFA are a (likely small) subset of actual economic costs.

<sup>14</sup> If so, the effort is a futile one. The APA does not permit an agency to promulgate a rule and ask for public comment on it, as if it were a proposal, six months after promulgation. Moreover, the absence of any reference to the Bahr Memorandum means that the June 2010 FR notice can not reasonably be inferred as even a retroactive request for comment.

<sup>15</sup> 44 U.S.C. § 3501 *et seq.*

<sup>16</sup> Required by 44 U.S.C. § 3506(c)(1)(A)(iv).

<sup>17</sup> *Transparency* means the provenance of all data and assumptions is fully disclosed. *Reproducibility* means a qualified third party cannot reconstruct the Office's results based solely on the information disclosed by the Office. See Office of Management and Budget, 2002. Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice; Republication," 67 Fed. Reg. 8452-8460; and U.S. Patent and Trademark Office, 2002. "Information Quality Guidelines."

<http://www.uspto.gov/web/offices/ac/ido/ifoqualityguide.html>.

commenters who press for full disclosure.<sup>18</sup> The Patent Office imposes requirements that are unreasonably duplicative of information otherwise reasonably accessible to the agency.<sup>19, 20</sup>

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<sup>18</sup> President Obama has made transparency a signal initiative of his administration. See Barack Obama, 2009. "Memorandum of January 21, 2009: Transparency and Open Government." 74 Fed. Reg. 15: 4685-4686. On a web page citing its participation in this initiative, the USPTO cites its "peer review pilot," which the Office says was launched in June 2007—18 months before President Obama was inaugurated. See U.S. Patent and Trademark Office, "USPTO Participates in Obama Administration Open Government Initiative," available at: [http://www.uspto.gov/news/topnews/peer\\_review.jsp](http://www.uspto.gov/news/topnews/peer_review.jsp).

<sup>19</sup> This practice is forbidden by 44 U.S.C. § 3506(c)(2)(c)(B).

<sup>20</sup> These violations, and many more, are documented in previous public comments. See, e.g., Richard B. Belzer, 2007. "Cost of Complying with the Proposed IDS Rule; Meeting at OMB, October 18, 2007." Available at: <http://www.reginfo.gov/public/do/DownloadDocument?documentID=57760&version=1>; \_\_\_\_\_, 2007. "Letter to Susan E. Dudley, Administrator, Office of Information and Regulatory Affairs." Available at: <http://www.whitehouse.gov/omb/assets/omb/oira/0651/comments/478.pdf>; \_\_\_\_\_, 2008. "Letter to Susan E. Dudley, Administrator, Office of Information and Regulatory Affairs, Office of Management and Budget RE ICR 0651-0031." Available at: <http://www.reginfo.gov/public/do/DownloadDocument?documentID=57744&version=1>; \_\_\_\_\_, 2008. "Letter to Nicholas A. Fraser, Desk Officer for the U.S. Patent and Trademark Office, Office of Information and Regulatory Affairs, Office of Management and Budget RE: ICR 0651-00xx." October 14. Available at: <http://www.reginfo.gov/public/do/DownloadDocument?documentID=90554&version=1>; \_\_\_\_\_, 2008; "Letter to Nicholas A. Fraser, Desk Officer for the U.S. Patent and Trademark Office, Office of Information and Regulatory Affairs, Office of Management and Budget RE: ICR 0651-00xx: ICs and Burden Estimates." November 17. Available at: <http://www.reginfo.gov/public/do/DownloadDocument?documentID=93894&version=1>; \_\_\_\_\_, 2010. "Comments on Methodology for Conducting an Independent Study of the Burden of Patent-Related Paperwork (75 Fed. Reg. 8649)." April 12. Available from the author; \_\_\_\_\_, 2010. "Comments to USPTO on ICR 0651-0032 ("Initial Patent Applications"). July 2, 2010. Available from the author; it is not posted on the USPTO's web site. See also *Tafas v. Dudas*, Declaration of Richard B. Belzer Ph.D., 1:07-cv-00846-JCC-TRJ docket no. 178-2 (E.D. Va. Dec. 27, 2007) available at <http://docs.justia.com/cases/federal/district-courts/virginia/vaedce/1:2007cv00846/221151/178/1.html>.

These substantive defects have been accompanied by numerous procedural violations—most notably, publishing a required 60-day notice seeking public comment on proposed paperwork burden exactly one day before finalizing the rule institutionalizing these burdens.<sup>21</sup> In my experience, few, if any, federal agencies have displayed such cynical disregard for the PRA.<sup>22</sup>

*A. Information Resource Management Deficiencies*

The PRA directs each federal agency's Chief Information Officer to head an office responsible for ensuring agency compliance with and prompt, efficient, and effective implementation of the information policies and information resources management responsibilities established under [the PRA], including the reduction of information collection burdens on the public. The Chief Information Officer and employees of such office shall be selected with special attention to the professional qualifications required to administer the functions described under this subchapter.<sup>23</sup>

Each program official within an agency

shall be responsible and accountable for information resources assigned to and supporting the programs under such official. In consultation with the Chief Information Officer ..., each agency program official shall define program information needs and develop strategies, systems, and capabilities to meet those needs.<sup>24</sup>

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<sup>21</sup> Compare U.S. Patent and Trademark Office, 2008. "Board of Patent Appeals and Interferences Actions; Information Collection Request; New Action; 60-day Notice," 73 Fed. Reg. 32359-32561 (published June 9, 2008) with U.S. Patent and Trademark Office, 2008. "Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals [0651-AC12]; Final Rule," 73 Fed. Reg. 32938-32977 (published June 10, 2008).

<sup>22</sup> A reasonable inference is the USPTO declines to comply with the PRA because applicants seek a governmental benefit, and the value of obtaining this benefit exceeds the cost of asserting legal rights under the PRA's public protection provisions. Less charitably, applicants decline to assert these legal rights because they reasonably fear retaliation.

<sup>23</sup> 44 U.S.C. § 3506(a)(3).

<sup>24</sup> 44 U.S.C. § 3506(a)(4).

Thirty years after the PRA was enacted, the USPTO still has not fulfilled either of these statutory requirements. The Patent Office does not have “strategies, systems, and capabilities” of meeting its information resources management needs.<sup>25</sup> The USPTO’s information resources management office displays insufficient competence to perform even the most mundane of tasks, such as publishing required notices and requests for comment and submitting Information Collection Requests (ICRs) to OMB in a timely manner.<sup>26</sup>

The quality of the USPTO’s patent-related PRA notices is systematically poor. The Patent Office seeks public comment on notices that lack the statutorily-required information to permit informed reply. The Office does not disclose the provenance of crucial data and assumptions; it invents figures out of whole cloth when so inclined; and it does not show its work. The Office steadfastly refuses to properly account for differential effects on small entities.

*B. Any Guidance, Directive or Rule that Might Evolve from the June 2010 FR Notice Will Entail New Paperwork Burdens*

All paperwork burdens must be approved by OMB. The statutory approval process includes, but is not limited to (1) prior consultation with affected parties; (b)(1) publication of specified information about the information collection, including substantial evidence of practical utility and an objectively supported estimate of burden with (b)(2) at least 60 days for public comment; (c)(1) public notice of transmission of the Information Collection Request to OMB including (c)(2) responses to comments received on the 60-day notice and (c)(3) no less than 30 days for public comment to OMB. These

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<sup>25</sup> The USPTO often asserts that highly significant regulatory actions create no new paperwork burdens. These claims are either knowingly false or evidence of systemic incompetence in information resources management in the program offices.

<sup>26</sup> Since 2002, the USPTO has sought five “emergency extensions “ for ICR 0651-0032 (“Initial Patent Applications”) (see <http://www.reginfo.gov/public/do/PRAOMBHistory?ombControlNumber=0651-0032>) and four “emergency extensions” for ICR 0651-0031 (“Patent Processing”) (see <http://www.reginfo.gov/public/do/PRAOMBHistory?ombControlNumber=0651-0031>). “Emergency extensions” are only necessary when an agency has failed to properly plan for scheduled renewals and revisions made necessary because of new agency regulations.

procedural requirements cannot be legally evaded, and they apply to all agency collections of information directed to patent applicants.<sup>27</sup>

*C. The Bahr Memorandum Includes New Information Collection Burdens for which the USPTO Does Not Have a Valid OMB Control Number*

The Bahr Memorandum directs examiners to impose new paperwork burdens on patent applicants.<sup>28</sup> These burdens have not been approved by the Office of Management and Budget. By law, the imposition of unapproved paperwork burdens is illegal. Shifting burden from the government to the public is not permitted by regulation; thus, it is impermissible for the USPTO to “share the burden” of examination by, for example, shifting search costs to applicants.<sup>29</sup> This illegal goal is the stated purpose of the June 2010 FR Notice and previous USPTO initiatives related to restriction practice.

By failing to secure prior approval of paperwork burdens, the USPTO invites applicants who prefer to challenge the legality of the Bahr Memorandum

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<sup>27</sup> A collection of information “means the obtaining, causing to be obtained, soliciting, or requiring the disclosure to third parties or the public, of facts or opinions by or for an agency, regardless of form or format, calling for ... answers to identical questions posed to, or identical reporting or recordkeeping requirements imposed on, ten or more persons, other than agencies, instrumentalities, or employees of the United States...” See 44 U.S.C. § 3501(3)(a)(i).

<sup>28</sup> Burden means “time, effort, or financial resources expended by persons to generate, maintain, or provide information to or for a Federal agency, including the resources expended for (A) reviewing instructions; (B) acquiring, installing, and utilizing technology and systems; (C) adjusting the existing ways to comply with any previously applicable instructions and requirements; (D) searching data sources; (E) completing and reviewing the collection of information; and (F) transmitting, or otherwise disclosing the information...” See 44 U.S.C. 3502(2).

<sup>29</sup> Information collections must have practical utility while minimizing burden on the public. Practical utility “means the actual, not merely the theoretical or potential, usefulness of information to or for an agency, taking into account its accuracy, validity, adequacy, and reliability, and the agency's ability to process the information it collects...” (5 C.F.R. § 1320.3(l)). Agencies “shall also seek to minimize the cost to itself of collecting, processing, and using the information, but shall not do so by means of shifting disproportionate costs or burdens onto the public” (5 C.F.R. § 1320.5(d)(1)(iii)).

in court to supplement their claims with the PRA's affirmative defense. The PRA protects the public from such agency abuse:

(1) Notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information that is subject to this chapter if—

(a) the collection of information does not display a valid control number assigned by the Director in accordance with this chapter; or

(b) the agency fails to inform the person who is to respond to the collection of information that such person is not required to respond to the collection of information unless it displays a valid control number.

(2) The protection provided by this section may be raised in the form of a complete defense, bar, or otherwise at any time during the agency administrative process or judicial action applicable thereto.<sup>30</sup>

The affirmative defense trumps all other considerations, even Patent Law, so it is difficult to imagine how it helps the USPTO to violate the PRA so brazenly.<sup>31</sup>

### III. Executive Order 12,866 Violations

Executive Order 12,866 applies to any “agency statement of general applicability and future effect, which the agency intends to have the force and effect of law, that is designed to implement, interpret, or prescribe law or policy or to describe the procedure or practice requirements of an agency.”<sup>32</sup> A cursory look at the MPEP reveals uncounted instances in which the USPTO has used it to impose regulatory requirements without following Executive Order

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<sup>30</sup> 44 U.S.C. 3512.

<sup>31</sup> Applicants forced by the Love Memorandum to make elections have the same legal rights, plus the procedural advantage that the USPTO did not make the document public for over two years after it directed examiners to enforce it.

<sup>32</sup> See Executive Order 12,866, § 3(d) (defining the terms “regulation” or “rule”) and § 6(a) (defining the procedures agencies must follow for centralized review of regulatory actions).

12,866. Each such regulatory requirement issued since October 1, 1993, was subject to Executive Order review if it was “significant.”<sup>33</sup>

A “significant” regulation or rule:

means any regulatory action that is likely to result in a rule that may:

(1) Have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities;

(2) Create a serious inconsistency or otherwise interfere with an action taken or planned by another agency;

(3) Materially alter the budgetary impact of entitlements, grants, user fees, or loan programs or the rights and obligations of recipients thereof; or

(4) Raise novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles set forth in this Executive order.<sup>34</sup>

Agencies must fulfill certain procedural responsibilities before they promulgate “significant” regulatory actions,<sup>35</sup> and they must prepare Regulatory Impact Analyses in support of actions that fall within § 3(f)(1) (“economically significant”).<sup>36</sup>

The USPTO claims that only 49 of its actions since 1993 have met the definition of being a proposed or final “regulation” or “rule”—an average of less than three per year.<sup>37</sup> Only two of the 49 were deemed “economically

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<sup>33</sup> Each regulatory requirement issued prior to that date but after February 17, 1981, was subject to the previous review scheme set forth in Executive Order 12,291 (46 Fed. Reg. 13193), regardless of whether it was “significant.”

<sup>34</sup> Executive Order 12,866, § 3(f).

<sup>35</sup> Executive Order 12,866, § 6(a), most notably § 6(a)(3)(B).

<sup>36</sup> Executive Order 12,866, § 6(a)(3)(C).

<sup>37</sup> See [reginfo.gov](http://reginfo.gov); figure includes all actions submitted to OMB for review between October 1, 1993, and August 3, 2010. Many of these actions concern trademarks. During the 12 years that Executive Order 12,291 was in effect, the USPTO

significant.”<sup>38</sup> The USPTO even denied that its extraordinarily controversial recent efforts to restrict continuation practice and limit the number of claims in an application<sup>39</sup> exceeded the E.O. 12866 threshold for economic significance.<sup>40</sup>

Records from the public side of OMB’s centralized review system indicate that the USPTO has never prepared a Regulatory Impact Analysis even though its actions routinely have billions of dollars in annual effects. With respect to Executive Order 12,866 as well as the PRA, the USPTO has for years behaved as a rogue Executive branch agency.<sup>41</sup>

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submitted 124 draft proposed or final rulemakings—an average of 10 regulatory actions per year.

<sup>38</sup> RIN 0651-AC29; both concerned Fiscal 2009 fees, not substantive rulemaking related to such economically significant matters as restriction practice.

<sup>39</sup> RINs 0651-AB93 (“Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims”) and 0651-AB94 (“Changes to Practice for the Examination of Claims in Patent Applications”), promulgated at 72 Fed. Reg. 46716-46814, overturned by *Tafas v. Dudas* (541 F.Supp.2d 805, 86 USPQ2d 1623 (E.D. Va. 2008)), and rescinded at 74 Fed. Reg. 52686-52691.

<sup>40</sup> In 2008, I estimated that the paperwork burdens alone for these two regulations exceeded \$20 billion per year. See Richard B. Belzer, Letter to Susan E. Dudley, January 16, 2008. Available at: <http://www.reginfo.gov/public/do/DownloadDocument?documentID=57744&version=1>.

<sup>41</sup> Why OMB persists in allowing the USPTO to evade Executive Order 12,866 cannot be ascertained. One hypothesis is that it lacks sufficient resources to oversee the Office competently, so a management decision was made some time ago not to oversee it at all.

This begs the question why the community of patent applicants has so rarely challenged USPTO actions in court. (Failure to comply with Executive Order 12,866 is not justiciable, but failure to comply with the Order likely is correlated with violations of the Administrative Procedure Act, which are.) A plausible hypothesis is that potential litigants fear retaliation, such as unobservable decisions by Office management to use various procedures available to reject legitimate applications or even refuse to examine them. Given the USPTO’s pervasive and concurrent violation of the Paperwork Reduction Act, which includes specific public protection provisions, fear of retaliation seems even more plausible.

The June 2010 FR Notice presages some action by the USPTO that undoubtedly will have regulatory effects, and quite likely these effects will be economically significant. USPTO management cannot expect to regain the respect of its customers if it persists in acting as if it is exempt from Executive Order 12,866. It would be wise to assume that any such action is economically significant unless and until persuasively demonstrated otherwise.

#### **IV. Patent Act, Regulation and Guidance Concerning Restriction Practice**

There is a serious disconnect between the text of the Patent Act on restriction practice and the USPTO's implementation of it. The statute delegates limited discretion to the USPTO to require restriction. Rather than limiting itself to its statutory authority, the USPTO requires restriction in a host of circumstances that Congress never authorized.

##### *A. The USPTO's Guidance on Restriction Practice Violates the Administrative Procedure Act*

1. The Patent Act and USPTO regulation both say the domain for restriction is the intersection of two conditions:  
"independent" and "distinct."

The USPTO's authority to require restriction derives from 35 U.S.C. § 121:

If two or more independent and distinct inventions are claimed in one application, the Director [of the USPTO] may require the application to be restricted to one of the inventions.

The USPTO does not have the authority to expand the domain of circumstances under which it requires restriction, such as by adding different criteria.

The Office is faithful to the statute in the regulations it has promulgated, acknowledging that the Office has decided to require restriction only in cases where it has the statutory authority to do so.

If two or more independent and distinct inventions are claimed in a single application, the examiner in an Office action will require the applicant in the reply to that action to elect an invention to which the claims will be restricted, this official action being called a requirement for restriction (also known as a requirement for division).<sup>42</sup>

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<sup>42</sup> 37 C.F.R. § 1.142, emphasis added.

2. In the MPEP, the USPTO redefines “and” to mean “or.”

The USPTO has done the opposite of what the statute and rule say. In the MPEP, the USPTO defines “independent and distinct” to mean “either independent or distinct”:

Under the statute, the claims of an application may properly be required to be restricted to one of two or more claimed inventions only if they are able to support separate patents and they are either independent (MPEP § 802.01, § 806.06, and § 808.01) or distinct (MPEP § 806.05 - § 806.05(j)).<sup>43</sup>

This text is false, for nothing in 35 U.S.C. § 121 authorizes the USPTO to interpret “and” to mean “or”. Moreover, the falsity of the text is obvious: the USPTO does not even cite the statute as its authority; the Office cites only itself—i.e., other sections of the MPEP in which it has defined either “independent” or “distinct” but not the phrase “independent and distinct”.

3. The USPTO’s peculiar interpretation of the statute dates from 1953.

Similar language can be found in previous editions of the MPEP going back to November 1953, the first one published after the Patent Act of 1952:

Under the statute an application may properly be required to be restricted to one of two or more claimed inventions only if they are independent (804.04—804.04j) or distinct (806.05—806.05g).<sup>44</sup>

Why did the Patent Office so clearly misinterpret the law? It appears that in the Patent Act of 1952 Congress did not adopt the USPTO’s then-existing regulatory language. Since at least 1948, the Patent Office stated much broader criteria for restriction practice:

Rule 11.1 Different inventions in one application.

Two or more independent inventions can not be claimed in one application; but (a) where several distinct inventions are dependent upon each other and mutually contribute to produce a single result they may be claimed in one application, and (b) more than one species of an invention, not to exceed three, may be specifically claimed in different

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<sup>43</sup> MPEP § 803 (8<sup>th</sup> Ed, Rev 8); emphasis added.

<sup>44</sup> MPEP § 803 (2d Ed, Rev 0 [November 1953]); emphasis added.

claims in one application, if the application also includes an allowable claim generic to all the claimed species.<sup>45</sup>

Under this rule, inventions that were independent or distinct (but not covered by (a) or (b)) were subject to restriction.<sup>46</sup> Congress enacted the much narrower language codified at 35 U.S.C. § 121, but the Patent Office rejected what Congress enacted.

4. Rule making is the appropriate procedure for reconciling this conflict.

Leaving statutory construction aside, the USPTO's interpretation defies logic because the conjunctions "and" and "or" are opposite Boolean operators.<sup>47</sup> Whether it lies within the USPTO's statutory authority to promulgate a rule containing an illogical interpretation is a worthy subject for discussion in another context. Meanwhile, different editions of the MPEP have attempted various ways to square this circle. The current edition, which presumably is the Patent Office's most sophisticated effort, tries to make the case that, because there is no legislative history for the statutory language, Congress did not really mean to enact language that differed from then-existing Patent Office practice.<sup>48</sup>

Whatever the USPTO's case might be, it would be unambiguously significant, because it dramatically expands the domain of the USPTO's administrative discretion and does so to the clear detriment of applicants.<sup>49</sup> It is

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<sup>45</sup> MPEP § 9-2, Rule 11.1 (1<sup>st</sup> Ed [1948]). The text relied upon here is faint and thus difficult to read. See [http://www.uspto.gov/web/offices/pac/mpep/old/EOR0\\_900.pdf](http://www.uspto.gov/web/offices/pac/mpep/old/EOR0_900.pdf).

<sup>46</sup> The text is ambiguous, but the conjunction "or" could be inferred after the semi-colon.

<sup>47</sup> In Boolean logic,  $A \cup B \neq A \cap B$  unless  $A = B$ . If the USPTO could devise a machine or transformation that would remove the slash from the unequal sign, it would be a patentable invention over all prior art in the history of mankind.

<sup>48</sup> An alternative way to reconcile the conflict is to show that the conjunction "or" in the statute was an inadvertent effort, such as might occur by transcription after enactment. The USPTO does not make such a claim in the MPEP.

<sup>49</sup> Forced division is unambiguously detrimental to applicants. They always have the option of choosing to divide their inventions into multiple applications, but generally choose not to do so. Ironically, the first edition of the MPEP counseled the examining corps to interpret the Office's authority sparingly:

therefore an act of rule making for the USPTO to interpret “and” to mean “or,” and not mere guidance. Rule making under the APA is the correct means for the USPTO to make its case. In a rule making proceeding, applicants and others who disagree have an established method for contesting an agency’s interpretation of statute and the arguments and evidence marshaled in support of that interpretation. There would be a final agency action conferring standing on those who believe the agency’s action is illegal. Both of these procedural rights are essentially nullified when an agency issues regulations masquerading as guidance.

5. The Love and Bahr Memoranda further expand the Office’s discretion to require division in ways not provided for by law.

Through the Love (and now Bahr) Memorandum, the USPTO has intensified conflict with 35 U.S.C. § 121. First, the Memorandum implicitly asserts that the USPTO has the extraordinary authority to compel applicants to make division elections or suffer abandonment. Second, whereas the MPEP requires examiners to “provide reasons and/or examples to support conclusions,”<sup>50</sup> the Bahr Memorandum relieves them of this duty, leaving applicants to guess what reasons underlie the examiner’s decision.<sup>51</sup>

*B. MPEP Chapter 800 and the Bahr Memorandum Violate OMB’s Government-wide Directive on Good Guidance Practices*

In the preamble to its government-wide directive on Good Guidance Practices, OMB quotes from the opinion in a famous case in which an agency illegally used guidance to regulate:

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ANY REASONABLE DOUBT AS TO INDEPENDENCE AND D1STINCTNESS  
SHOULD BE RESOLVED IN APPLICANT'S FAVOR.

See MPEP (1<sup>st</sup> Ed) § 9-4; capitalization in original.

<sup>50</sup> MPEP § 803(II).

<sup>51</sup> The Bahr Memorandum “permits” the examiner to “set forth an explanation as to why the species or groupings(s) are independent or distinct.” In MPEP Chapter 800, this is required. The Bahr Memorandum invites examiners to provide no explanation at all: “None of these form paragraphs currently provide for the examiner to identify the specific reason(s) why there would be a search and/or examination burden if restriction were not required in the application under examination.”

The phenomenon we see in this case is familiar. Congress passes a broadly worded statute. The agency follows with regulations containing broad language, open-ended phrases, ambiguous standards and the like. Then as years pass, the agency issues circulars or guidance or memoranda, explaining, interpreting, defining and often expanding the commands in regulations. One guidance document may yield another and then another and so on. Several words in a regulation may spawn hundreds of pages of text as the agency offers more and more detail regarding what its regulations demand of regulated entities. Law is made, without notice and comment, without public participation, and without publication in the Federal Register or the Code of Federal Regulations.<sup>52</sup>

The USPTO's MPEP is a classic example of what the Court in *Appalachian Power* described. The MPEP is a huge compendium, updated most recently in July 2010 (8<sup>th</sup> Edition, Revision 8). The PDF version exceeds 32 megabytes. It clearly imposes regulatory burdens on applicants beyond those contained in the USPTO's rules. Some variant of "require" appears 8,400 times. The words "must" and "shall" occur more than 6,700 and 5,700 times, respectively. The phrases "applicant[s] must" and "applicant[s] shall" occur 286 and 85 times, respectively, and there are many other occurrences of "must" or "shall" that are regulatory in nature but involve more complex syntax.<sup>53</sup>

There is no publicly available inventory documenting which of these "must"s, "shall"s, and "require"s are directed at applicants. There are no publicly available estimates of their paperwork burdens, nor are there any publicly available estimates of their economic effects.

#### **V. Administrative Procedure Act and Government-wide Good Guidance Practice Violations**

The APA prohibits agencies from promulgating regulations under the guise of guidance. This ban is reinforced by OMB's 2007 government-wide directive. The USPTO violates both. Since 2008, the USPTO has been specifically

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<sup>52</sup> Office of Management and Budget, 2007. "Final Bulletin for Good Guidance Practices." 72 Fed. Reg. 16:3432-40 (3432, citing *Appalachian Power*, 208 F.3d at 1019).

<sup>53</sup> Some instances of "applicant must" or "applicant shall" are requirements imposed on examiners expressed in passive voice.

required by case law to follow the APA's notice and comment procedures for all rule makings. To date, there is no public evidence that the USPTO has instituted changes to make its procedures compliant with this decision.

*A. The USPTO Conducts Rule Making Under the Cover of Guidance*

OMB's directive on Good Guidance Practices includes a number of procedures agencies are supposed to follow, but critically for purposes of this comment, substantive requirements as well:

*Standard Elements:* Each significant guidance document shall—

Not include mandatory language such as “shall,” “must,” “required” or “requirement,” unless the agency is using these words to describe a statutory or regulatory requirement, or the language is addressed to agency staff and will not foreclose agency consideration of positions advanced by affected private parties.<sup>54</sup>

The Bahr Memorandum does not comply. Although styled as a memorandum “to clarify Office policy,” it directs examiners to impose on applicants significant new regulatory requirements. It is therefore a rule of general applicability, not guidance. It is impermissible under OMB's directive and, more importantly, illegal under the APA.

*B. The USPTO Selectively Waives the MPEP When the MPEP Constrains Examiners' Exercise of Discretion or Grants Protection to Applicants*

OMB's government-wide guidance permits agencies to use guidance to limit the discretion of their employees, provided that in doing so they are not simultaneously harming regulated entities.<sup>55</sup> When guidance is used to direct agency employees—such as by stating that employees “must” do this or “shall” do that—it becomes binding on the agency and its employees.

MPEP Chapter 800, which contains the USPTO's guidance on restriction practice, specifically requires examiners to take certain actions beneficial to applicants.<sup>56</sup> Other features of this guidance create presumptions in applicants'

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<sup>54</sup> Office of Management and Budget, 2007. “Final Bulletin for Good Guidance Practices.” 72 Fed. Reg. 16:3432-40; § II.2.h.

<sup>55</sup> See the text accompanying footnote 54.

<sup>56</sup> MPEP § 803(II), emphasis added:

favor that examiners are strongly urged to honor.<sup>57</sup> Recognizing that restriction always harms applicants, the MPEP directs examiners to exercise with care the authority to require it.<sup>58</sup> The USPTO then binds the examining corps further by requiring that final Office actions containing restriction requirements are issued only by relatively experienced staff.<sup>59</sup>

Conversations with experienced patent applicants and patent lawyers indicate that examiners often do not comply with these requirements, and

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- Examiners must provide reasons and/or examples to support conclusions, but need not cite documents to support the restriction requirement in most cases.
  - Where plural inventions are capable of being viewed as related in two ways, both applicable criteria for distinctness must be demonstrated to support a restriction requirement.

<sup>57</sup> MPEP § 803(II), emphasis added:

- If there is an express admission that the claimed inventions would have been obvious over each other within the meaning of 35 U.S.C. 103, restriction should not be required.
- For purposes of the initial requirement, a serious burden on the examiner may be prima facie shown by appropriate explanation of separate classification, or separate status in the art, or a different field of search as defined in MPEP § 808.02. That *prima facie* showing may be rebutted by appropriate showings or evidence by the applicant.

<sup>58</sup> MPEP § 803(II), emphasis added: “Since requirements for restriction under 35 U.S.C. 121 are discretionary with the Director [of the USPTO], it becomes very important that the practice under this section be carefully administered.”

<sup>59</sup> MPEP § 803(II), capitalization in original: “Notwithstanding the fact that this section of the statute apparently protects the applicant against the dangers that previously might have resulted from compliance with an improper requirement for restriction, IT STILL REMAINS IMPORTANT FROM THE STANDPOINT OF THE PUBLIC INTEREST THAT NO REQUIREMENTS BE MADE WHICH MIGHT RESULT IN THE ISSUANCE OF TWO PATENTS FOR THE SAME INVENTION. Therefore, to guard against this possibility, only an examiner with permanent full signatory authority or temporary full signatory authority may sign final Office actions containing a final requirement for restriction. An examiner with permanent partial signatory authority or temporary partial signatory authority may sign non-final Office actions containing a final requirement for restriction.”

supervisory personnel are unwilling to enforce them. It is commonplace for examiners to impose restriction requirements that are unsupported by “reasons and/or examples,” for examiners not to demonstrate that the applicable criteria for restriction, for examiners to ignore rebuttals of their explanations, and for Supervisory Examiners and Technology Center Directors to deny that they are required to adhere to the MPEP.

*C. The USPTO is Required by Case Law to Follow APA Notice and Comment Procedures for All Rule Making*

In 2007, the USPTO promulgated highly controversial regulations limiting the number of claims that applicants could make and sharply restricting continuations practice.<sup>60</sup> These regulations were sharply criticized as highly burdensome, destructive of intellectual property, and motivated solely by internal Patent Office management objectives. The rules were challenged in U.S. District Court, and in 2008, they were overturned for exceeding the Patent Office’s rule making authority.<sup>61</sup>

The USPTO appealed to the Court of Appeals for the Federal Circuit. However, in October 2009, new USPTO management decided to abandon the appeal and published a final regulation rescinding the 2007 final rules.<sup>62</sup> The USPTO then filed a motion to dismiss the Federal Circuit appeal on the ground that the new action rendered the case moot.

In a highly unusual move, however, the USPTO also asked the Federal Circuit to vacate the District Court opinion. Sitting *en banc*, the Federal Circuit agreed to dismiss the USPTO’s appeal but denied its request to vacate the District Court opinion. Citing Supreme Court precedent, CAFC Chief Judge Michel wrote:

[W]hen a party procures the conditions that lead to a case becoming moot, that party should not be able to obtain an order vacating the lower

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<sup>60</sup> U.S. Patent and Trademark Office. 2007. Changes To Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications; Proposed Rule [0651-AB93, 0651-AB94]. 72 Fed. Reg. 161: 46716-46814.

<sup>61</sup> *Tafas v. Dudas*, 541 F.Supp.2d 805, 812, 86 USPQ2d 1623 (E.D. Va. 2008).

<sup>62</sup> U.S. Patent and Trademark Office, 2009. “Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications.” 74 Fed. Reg. 197: 52686-52691.

court decision that was adverse to that party. Vacatur ... is appropriate if the mootness arises from external causes over which the parties have no control, or from the unilateral act of the prevailing party, but not when the mootness is due to a voluntary act by the losing party, such as a settlement.<sup>63</sup>

Moreover, this was an easy call:

The [USPTO] motion seeks to paint this case as falling into the former category, but it appears to us to fall squarely into the latter. This is not a case in which the regulations have been overridden by a statutory change; instead, it is a case in which the agency itself has voluntarily withdrawn the regulations...

This begs the question: What aspect of the District Court's opinion was the USPTO so interested in vacating? There are two answers, one of them obvious and one more subtle. The obvious answer is that the district court opinion stated clearly that the USPTO lacks statutory authority to promulgate substantive regulations.

The USPTO's more subtle interest in vacating the District Court opinion is that it specifically requires the Patent Office to follow APA notice and comment procedures every time it seeks to promulgate procedural rules, the only class of rules it is statutorily permitted to issue.<sup>64</sup> As noted above, it is the USPTO's longstanding practice to issue rules through the MPEP and, as exemplified by the Love and Bahr Memoranda, outside the MPEP as well. The District Court opinion makes both practices illegal.<sup>65</sup>

This puts the USPTO in a quandary with respect to its efforts to regulate restriction practice. Even if it assumed that the USPTO has statutory authority to regulate restriction practice, it must follow APA notice and comment

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<sup>63</sup> *Tafas v. Kappos*, 586 F.3d 1369, 1371, 92 USPQ2d 1693 (Fed. Cir. 2009), internal citations omitted.

<sup>64</sup> See, *Tafas v. Dudas*, 541 F.Supp.2d 805, 812, 86 USPQ2d 1623, 1628 (E.D. Va. 2008): "[T]he structure of 35 U.S.C. § 2(b)(2) makes it clear that the USPTO must engage in notice and comment rule making when promulgating rules it is otherwise empowered to make, namely procedural rules."

<sup>65</sup> Clearly, if it is illegal for the USPTO to promulgate procedural rules without following the APA, it is doubly illegal for it to promulgate substantive rules without following the APA. The MPEP appears to be chock full of substantive rules.

procedures. That is, the Patent Office is prohibited from promulgating rules masquerading as “guidance” (e.g., through the MPEP) or as “memoranda” to staff (e.g., the Love and Bahr Memoranda). Therein lies the best tactical reason for the USPTO to make every effort to keep the Love Memorandum secret.<sup>66</sup>

## **VI. Recommendations**

This quandary is more serious than mere procedure, for there is ample evidence that the USPTO lacks statutory authority for what it has been doing for decades through the MPEP, what it has done recently through the Love and Bahr Memoranda, and what the June 2010 FR Notice indicates the Patent Office is now considering.

The underlying problem is the USPTO has misused its limited statutory authority on restriction practice to pursue other ends—chiefly, the indirect management of patent examining resources. A consistent element of this management goal is to reduce the workload of the examining corps, through any means necessary and irrespective of the burdens imposed on applicants or the collateral damage on innovation. The USPTO’s statutory authority, being limited to procedural matters, almost certainly does not extend this far.

### *A. Social vs. Bureaucratic Benefits of Restriction Practice*

Congress granted the USPTO the authority to require division to enhance the net economic value of patents.<sup>67</sup> The June 2010 FR Notice displays a fundamentally different perspective: How can restriction practice be modified to reduce the cost of patent examination to the Office irrespective of paperwork burdens and economic impacts on the public?

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<sup>66</sup> It could be argued that when the Love Memorandum was issued in April 2007, USPTO officials could not have known that the District Court would rule in April 2008 that the Office lacked substantive rule making authority. This issue was neither new nor novel, however. Numerous commenters on the proposed rule makings, published in 2006, strenuously argued that the USPTO lacked statutory authority. Thus, USPTO officials were surely put on notice well before April 2007 that finalizing the proposed rules created significant legal risk. Issuing substantive rules through a memorandum—particularly a memorandum kept secret—was clearly a less risky strategy. This is confirmed by the absence thus far of any legal challenge to the Bahr Memorandum.

<sup>67</sup> 35 U.S.C. § 121.

The Office's stated intention in this Notice is "to improve the quality and consistency of restriction requirements made by Office personnel."<sup>68</sup> However, the questions posed in the Notice largely concern ways to reduce examiner search burden and unrelated statutory provisions.<sup>69</sup> Reducing search burden is not an authorized criterion for restriction under Patent Law.

This bias in favor of reducing its own costs, and doing so without any apparent regard for costs that would be borne by applicants or society at large, undermines the USPTO's claim to be genuinely interested in improving patent quality. Rather, the Office displays a predominant interest in chopping large, complex applications into multiple smaller ones, and doing so solely for its own apparent administrative convenience.<sup>70</sup> Indeed, reducing examiner search burden—not improving patent quality—has been for years the persistent theme in USPTO's rationale for restriction practice.

The practical effect of most changes in restriction practice floated by the Office for comment would be to expand the circumstances under which the Office could impose restriction, almost always to the detriment of applicants. Nowhere in the text of the Notice does the USPTO even hint at the possibility that its existing restriction practices might be excessive and warrant deregulatory reform.

The underlying problem the Office confronts is not the examination burdens associated with large, complex applications. Rather, the problem is that the Office uses an internal system of incentives and rewards penalizing

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<sup>68</sup> June 2010 FR Notice, 33584 col. 3; 33585 col. 1.

<sup>69</sup> June 2010 FR Notice. See, e.g., the discussion regarding Question 1 at 33585, col. 3 ("The Office is also considering whether to revise the MPEP to specify that 'a serious burden on the examiner' encompasses search burden and/or examination burden.")

<sup>70</sup> Nor does the June 2010 FR Notice explain how this would benefit the Patent Office. It can be hypothesized that a larger number of less diverse applications is easier to examine, but evidence supporting this hypothesis has not been provided. It seems equally plausible that the practical consequences of aggressive restriction would be detrimental to the Patent Office. It would dramatically increase the number of applications submitted, and the likelihood of double patenting—which the USPTO views as a serious social evil—seems likely to rise, perhaps exponentially, with the number of daughter applications forced by restriction. The only clear way the Office benefits is by generating more fees.

examiners who take on large, complex applications. Patent applications have inherently variable examination burdens because innovation is inherently variable. Rather than modify its internal practices to adapt to the dynamic world of innovation as it exists in the market, however, the Patent Office appears to be committed to force that dynamism to adapt to the peculiar structure, management, and operating style of the Office. The USPTO thus has converted restriction practice into merely another tool for forcing the world to adjust to the Office, which ironically given its mission, seems incapable of innovation with respect to its own management and procedure.

This leads to three specific recommendations for reform of restriction practice:

**Recommendation #1:** Restore restriction practice to the limited purposes established by law, and refrain from trying to use restriction practice as an indirect tool to manage agency resources.

The Patent Office should stop trying to use restriction practice as a tool to manage its own resources.

**Recommendation #2:** Revise MPEP Chapter 800 to conform to the Patent Act.

The Patent Office should stop using the MPEP to accomplish purposes contrary to law. If the Office believes it has the statutory authority to interpret “and” to mean “or”, it should commence an APA rule making to make the case.

**Recommendation #3:** Retroactively rescind both the Love and Bahr Memoranda, effective on the day each was issued.

*B. Information Resources Management Reform*

Much of the USPTO’s existing difficulty arises because it does not manage existing information well.

1. No inventory of regulatory requirements is included in regulation or embedded in the MPEP.

The Paperwork Reduction Act requires covered federal agencies (including the USPTO) to establish and maintain an inventory of its information collections:

With respect to general information resources management, each agency shall—

...

(4) in consultation with the Director, the Administrator of General Services, and the Archivist of the United States, maintain a current and complete inventory of the agency's information resources...<sup>71</sup>

There is no public evidence that the Patent Office currently maintains any inventory of actual information collections—even with respect to duly promulgated regulations, much less the MPEP and unpublished directives such as the Love and Bahr Memoranda. There is sufficient public evidence to infer that the Patent Office pays little or no attention to the regulatory burdens it imposes via the MPEP. As noted above, the MPEP includes thousands of regulatory commands. Many are information collections lacking valid OMB Control Numbers, and thus it is illegal for the USPTO to enforce them.

**Recommendation #4:** Prepare a valid and reliable inventory of all paperwork burdens contained in rules, the MPEP, and internal directives. Publish this inventory for public comment, make all public comments readily accessible on the USPTO web site, and respond to these comments in a respectful manner.

2. The USPTO's information resources management office lacks statutorily-required independence.

Information resources management is not supposed to be some backwater assignment where an agency dumps its least productive employees. The office is supposed to be able to go toe-to-toe with program offices and not merely act as a rubber stamp:

With respect to the collection of information and the control of paperwork, each agency shall (1) establish a process within the office headed by the Chief Information Officer... that is sufficiently independent

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<sup>71</sup> 44 U.S. C § 3506(b)(4).

of program responsibility to evaluate fairly whether proposed collections of information should be approved under this subchapter...<sup>72</sup>

There is no public evidence that the USPTO's information resources management office enjoys sufficient independence to do its job.

**Recommendation #5:** Fundamentally reform and restructure the USPTO's information resources management office so that it is genuinely independent of the Patent Office's programmatic activities, and has the necessary expertise and requisite authority to fully comply with the Paperwork Reduction Act.

### *C. Administrative Procedure Reform*

Multiple reforms are needed, both substantive with respect to restriction practice and administrative with respect to achieving accountability for compliance with applicable procedure. Recommendations #1 through #3 dealt with substantive reforms. Recommendations #6 through #8 concern administrative procedure.

1. USPTO's Office of General Counsel Should Be Held Accountable for Compliance with the APA and Executive Order 12,866.

The Office of General Counsel (OGC) has either tolerated or encouraged the Office of Patent Examination Policy (OPEP) and Office of Patent Legal Administration (OPLA) not to comply with the Administrative Procedure Act, Executive Order 12,866, and OMB's directive on Good Guidance Practices.

I have personally observed this serial noncompliance since 2007, when I first began reviewing USPTO rule makings (for compliance with Executive Order 12,866) and Information Collection Requests (for compliance with the Paperwork Reduction Act). Of the five rule makings I have reviewed, the USPTO grossly understated the economic effects of each one (thereby evading the requirement to prepare Regulatory Impact Analyses)<sup>73</sup> and falsely certified

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<sup>72</sup> 44 U.S.C. § 3506(c)(1), emphasis added.

<sup>73</sup> Two were misclassified as "significant" even though they imposed billions of dollars annually in paperwork burdens alone, far exceeding the \$100 million threshold triggering Executive Order 12,866's RIA requirement. See U.S. Patent and Trademark Office, 2006. "Changes To Practice for Continuing Applications, Requests for Continued

them as exempt from the Regulatory Flexibility Act (thereby evading the statutory requirement for preparation of a Regulatory Flexibility Analysis and substantive RFA provisions for differential treatment of small entities).<sup>74</sup> Another rule making, this one with tens of billions of dollars in annual paperwork burdens, was falsely certified as “not significant” under Executive Order 12,866.<sup>75</sup> Two other Notices of Proposed Rule Making with huge economic and paperwork impacts were never submitted to OMB for review.<sup>76,77</sup>

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Examination Practice, and Applications Containing Patentably Indistinct Claims; Proposed Rule” [0651-AB93], 71 Fed. Reg. 48-61; U.S. Patent and Trademark Office, 2006. “Changes to Practice for the Examination of Claims in Patent Applications; Proposed Rule” [0651-AB94], 71 Fed. Reg. 61-69.

<sup>72</sup> U.S. Patent and Trademark Office, 2005. “Regulatory Agenda #741. Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, And Applications Containing Patentably Indistinct Claims” [RIN 0651-AB93], 70 Fed. Reg. 64479; and \_\_\_\_\_, 2005. “Regulatory Agenda #742. Changes to Practice for the Examination of Claims in Patent Applications” [RIN 0651-AB94]. 70 Fed. Reg. 64479. All certifications were made by Robert W. Bahr, who was at the time Senior Patent Attorney in the office of Deputy Commissioner for Patent Examination Policy John Love.

<sup>75</sup> U.S. Patent and Trademark Office, 2006. “Changes To Information Disclosure Statement Requirements and Other Related Matters; Proposed Rule [0651-AB95]. 71 Fed. Reg. 131: 38808-38823. When I noted this egregious procedural error during a meeting with OMB officials at which I presented my estimate of the cost of the draft rule, Mr. Robert W. Bahr (representing the USPTO at this meeting) implausibly called it a typographical error. If so, the error was a persistent one, having first been made by Mr. Bahr in the 2005 Regulatory Agenda entry (70 Fed. Reg. 64479-64480).

<sup>76</sup> One of these Notices of Proposed Rule Making was the proposal to significantly restrict Markush practice (72 Fed. Reg. 44992-45001), which is mentioned in the June 2010 FR Notice. Like the others, it was falsely certified in the Regulatory Agenda as “nonsignificant” under Executive Order 12,866 and exempt from the Regulatory Flexibility Act by Robert W. Bahr. When the USPTO was subsequently forced to conduct in Interim Regulatory Flexibility Analysis, it implicitly acknowledged billions of dollars of impacts on small entities. See 73 Fed. Reg. 12679-12684.

<sup>77</sup> U.S. Patent and Trademark Office, 2007. “Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals; Proposed Rule” [0651-AC12], 72 Fed. Reg. 41472-41490. In addition to the same Executive Order 12,866 and RFA violations, in this case the USPTO violated the Paperwork Reduction Act at least 10 different ways. See Richard B. Belzer. 2008. “Letter to Nicholas A. Fraser, Desk Officer

Meanwhile, all five rule makings entailed massive paperwork burdens that were misrepresented, understated, or ignored.

The most likely explanation for this pattern of behavior is that OGC has become an advocate for the substantive policy objectives of OPEP and OPLA and lost sight of its institutional role as neutral guardian of the USPTO's broader interests. These interests include, but certainly are not limited to, ensuring that the Patent Office adheres to the rule of law. Of course, this means refusing to sign off on draft regulatory actions reasonably expected to exceed the Patent Office's statutory authority (such as the 2007 Continuations and Claims rule making). But it also means refusing to permit OPEP and OPLA to violate the APA and RFA, or to mislead OMB (and by extension, the President) about the material consequences of their proposed actions.

**Recommendation #6:** Reorient the Office of General Counsel away from policy and program advocacy and toward compliance with administrative law and procedure, including the Administrative Procedure Act, the Regulatory Flexibility Act, and Executive Order 12,866.

2. Designate the General Counsel as the responsible party for implementing government-wide good guidance practices and make adherence a primary criterion of professional accountability.

To date, no one at the USPTO appears to have taken seriously OMB's government-wide directive on Good Guidance Practices. The directive contains substantive elements, discussed above, forbidding the imposition of regulatory requirements under the cover of guidance. For the USPTO, this is obviously a crucially needed reform.

**Recommendation #7:** Direct the Office of General Counsel to remove all regulatory requirements from the MPEP.

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for the U.S. Patent and Trademark Office, Office of Information and Regulatory Affairs,  
Office of Management and Budget RE: ICR 0651-00xx"  
(<http://www.reginfo.gov/public/do/DownloadDocument?documentID=90554&version=1>).

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In addition, the OMB directive includes several procedural requirements that OGC should be directed to implement and enforce:

- “Each agency shall develop or have written procedures for the approval of significant guidance documents. Those procedures shall ensure that the issuance of significant guidance documents is approved by appropriate senior agency officials.”<sup>78</sup>

No such written procedures currently exist, or if they exist, have been made public. The process, if there is one, is shrouded in secrecy.

- “Agency employees should not depart from significant guidance documents without appropriate justification and supervisory concurrence.”<sup>79</sup>

The USPTO should establish a clearly defined and publicly disclosed internal clearance pathway for examiners who feel they need a waiver from guidance. This would reduce uncertainty, among applicants and examiners alike; identify areas where the MPEP needs legitimate revision; and foster comity between the examining corps and the Patent Office’s customers, which seems to be widely recognized to have been lacking for several years.

- “Each agency shall maintain on its website ... a current list of its significant guidance documents in effect. The list shall include the name of each significant guidance document, any document identification number, and issuance and revision dates. The agency shall provide a link from the current list to each significant guidance document that is in effect.”<sup>80</sup>

The closest approximations to such a list are a web page that includes a bare-bones list of policy documents and guides<sup>81</sup> and other page listing memoranda

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<sup>78</sup> Office of Management and Budget, 2007. “Final Bulletin for Good Guidance Practices,” 72 Fed. Reg. 3432-3440; § II(1)(a).

<sup>79</sup> *Ibid.*, § II(1)(b).

<sup>80</sup> *Ibid.* § III(1)(a).

<sup>81</sup> U.S. Patent and Trademark Office, “Policy & Guides.” Available at: <http://www.uspto.gov/patents/resources/index.jsp> [accessed August 8, 2010].

to the examining corps.<sup>82</sup> This latter page includes memoranda that have been rescinded or superseded but are not identified as such, and the list does not clearly state how and why these documents qualify as “guidance.” This list of memoranda includes economically significant regulations, such as the Love and Bahr Memoranda.

- “The list shall identify significant guidance documents that have been added, revised or withdrawn in the past year.”<sup>83</sup>

Neither of the web pages mentioned above contains this information.

- “Each agency shall establish and clearly advertise on its website a means for the public to submit comments electronically on significant guidance documents, and to submit a request electronically for issuance, reconsideration, modification, or rescission of significant guidance documents.”<sup>84</sup>

The USPTO maintains no such page on its website.

- “Each agency shall designate an office (or offices) to receive and address complaints by the public that the agency is not following the procedures in this Bulletin or is improperly treating a significant guidance document as a binding requirement. The agency shall provide, on its website, the name and contact information for the office(s).”<sup>85</sup>

The USPTO has not implemented this provision.

**Recommendation #8: Direct the Office of General Counsel to fully, faithfully, and fairly implement OMB’s 2007 directive on Good Guidance Practices.**

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<sup>82</sup> U.S. Patent and Trademark Office, “Memoranda to the Examining Corps,” Available at: <http://www.uspto.gov/patents/law/exam/memoranda.jsp> [Accessed August 8, 2010].

<sup>83</sup> Ibid. § III(1)(b).

<sup>84</sup> Ibid. § III(2)(a).

<sup>85</sup> Ibid. § III(2)(b).

This list of recommendations is not comprehensive, but it includes a wealth of opportunities of needed reform. The longer the USPTO delays in making these reforms a high priority, the more difficult it will be for the Office to improve patent quality.

If you or your staff have any questions regarding these comments, I would be happy to explain them further.

Sincerely,

A handwritten signature in black ink, appearing to read "RBBelzer", with a long horizontal flourish extending to the right.

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