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**From:** Jeffrey Birchak [mailto:jbirchak@fallbrooktech.com]

**Sent:** Thursday, May 04, 2006 12:06 AM

**To:** AB93Comments

**Subject:** Comments

The attached comments are submitted in response to the proposals in 71 Fed. Reg. 48 and 61.

The Honorable Jon W. Dudas  
Undersecretary of Commerce for  
Intellectual Property and Director of  
the U.S. Patent and Trademark Office

600 Dulany Street  
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Suite 10D44  
Alexandria, Virginia 22314

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

Dear Undersecretary Dudas,

Fallbrook Technologies Inc. (“Fallbrook”) is a small business made up of about thirty engineers and designers and another seven support staff and executives. Fallbrook relies on the patent system as the primary means of protecting its intellectual assets and has filed over a hundred patent applications in the U.S. or around the world. Fallbrook currently has twelve issued U.S. patents and over forty pending applications. Fallbrook submits these comments in the strongest opposition to the United States Patent and Trademark Office’s (the “Office’s”) institution of the proposed changes under 71 Fed. Reg 48 (January 3, 2006) (“Continuation Proposals”) and urgently requests the consideration of the dire and adverse effects such Continuation Proposals will have on the patent system and indeed our economy, and in general opposition to the changes proposed under 71 Fed. Reg. 61 titled “Changes to Examination of Claims in Patent Applications” (“Claims Proposals”). Fallbrook will not undertake to address the proposed rules changes on a rule-by-rule basis as such analyses have been completed in a scholarly and suitable manner by such entities as the San Diego Intellectual Property Association (SDIPLA) and the American Intellectual Property Association (AIPLA). Instead, we will address some of the underlying assumptions stated in proposing the rules changes.

Fallbrook appreciates the opportunity it has been granted to comment on the Office’s Continuation Proposals and Claims Proposals and fully appreciates the burdens placed on the Office to operate as a federal agency administering the operation of a system that is so vital to our U.S. economy under arguably one of the most complex and compelling areas of law.<sup>1</sup> Fallbrook believes that the Congress has done the Office and indeed the entire patent system a huge disservice through its fund diversion program. In fact, the examiners that should have been hired and retained who were not are in our opinion the correct fix for the current problems. For our part, we believe the Office has

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<sup>1</sup> For a credible background of the development of the current patent system and its role in American economy *see generally* [Innovation and Its Discontents/ how our broken patent system is endangering innovation and progress and what to do about it](#), Chapter 3, Jaffe, Adam B. and Lerner, Josh, Princeton University Press, 2004.

done a commendable job reviewing the abundance of applications it reviews and in issuing the patents it does in light of the resources granted it by the Congress. However, the changes proposed present significant limitations on the rights granted to innovators for the most beneficial innovations that are developed, which are at the heart of our business and indeed the current U.S. economic system, and threaten the long-term viability of the small entrepreneurial enterprise as an engine for economic growth in America. This paper presents a little background on the significance of the patent system to small businesses and thereby to our overall economy and then some directed comments to the proposals based upon the background information.

### **Background: The Patent System and Small Businesses**

Small businesses employ over half of working Americans<sup>2</sup> and represent 99% of America's employers and 97% of all exported goods.<sup>3</sup> Small businesses, and indeed all businesses, are increasingly reliant on the value of intangible property to their businesses.<sup>4</sup> The Office recognizes the importance of small businesses itself as witnessed by its establishment of the Stop Fakes initiative and website.<sup>5</sup> As the U.S. economy completes the shift from a manufacturing economy to a service economy based on intangible assets, the courts and agencies tasked with dealing with those assets in a predictable and transparent manner will play vital roles in determining whether the transaction costs for businesses trying to compete in such an economy warrant taking business risks. It is critical that the Office, in its role as the administrator of the patent system, establish a system that rewards innovators and provides a reasonable basis upon which entrepreneurs and risk-takers can rely so that small entrepreneurial ventures can continue to drive essential technologies in the U.S.

Many of our country's industries result from start-up companies that are funded by risk-takers on the assumption that the patents underlying the technology developed by the companies would protect their investments in that technology. The patent system grants to these small companies a piece of property they can license. However, the patents they receive also help protect them from the most corrosive element in our markets, large manufacturing companies who lack the capability of developing on their own truly new and innovative technologies and instead try to either license such technologies from innovative small companies through one-sided and heavily leveraged negotiations, or worse yet steal the technology by making insignificant changes to the baseline innovations in an effort to avoid the patents of the innovators altogether. A patent system that makes it harder for small innovative companies to fend off the unscrupulous efforts of these "Technology Pirates" will have a significant and negative impact on the ability of these small companies to thrive in our country. It will be very

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<sup>2</sup> See [http://www.sba.gov/advo/research/us\\_tot.pdf](http://www.sba.gov/advo/research/us_tot.pdf).

<sup>3</sup> U.S. Census bureau via the USPTO's [www.uspto.gov/smallbusiness](http://www.uspto.gov/smallbusiness) website. All of the additional quotes cited on this website further emphasize the importance of small businesses to our economy and the importance of IP to those small businesses.

<sup>4</sup> "Since 1975, intangible value as a percentage of market value grows from 16.8% to 32.4% in 1985, to 68.4% in 1995, and to 79.7% in 2005." The Center for Applied Innovation website <http://www.cfainnovation.com/IPSUMMIT.html>.

<sup>5</sup> [www.stopfakes.gov](http://www.stopfakes.gov).

difficult for them to secure the funding needed to develop and bring new technology to the market. Indeed, it is hard to see how the U.S. will survive with its current standards if its patent system does not afford innovators the sort of protection they need to fend off the attempts of such Technology Pirates both foreign and domestic to steal what should rightfully belong to the innovators by exploiting holes in the patent system that reward sharp negotiation tactics by the most powerful and least conscientious members of our global economy.<sup>6</sup> The Office recognizes the devastating affect on small businesses of corrupt business practices and the theft of technology as evidenced by its STOP FAKES program. However, the changes recommended by the Office would defeat such efforts by fostering the design-around and outright theft of intellectual property of true innovators.

## **Continuation Practice**

### **An Essential Tool For Small Businesses and Solo Inventors**

Continuation practice provides an effective tool for establishing small companies. A small company or a solo inventor who has spent as long as a decade or more developing the next big innovation such as a new tool for performing a new heart surgery technique or a new automobile transmission that will increase the efficiency of automobiles by over twenty five percent typically needs to have patent rights to be rewarded financially for such inventions. Investors will usually not invest in a new technology without underlying patent protection. Furthermore, if the inventor were to take such technology directly to a manufacturer, either to sell or to license, the inventor will get little if anything without adequate patent protection. So how do we foster innovation by such inventors while bring the most complete disclosure of the resulting innovation to market?

Continuation practice allows small entity inventors, the sort we have all agreed we wholeheartedly support, to fully disclose their inventions to get one or more patents in a way that most benefits the public interest. The public is most benefited when inventors are encouraged to disclose all of the innovations, that closely relate or interact, and that comprise an inventor's central technological breakthrough. Such innovations can include many patentably distinct inventions. The public is best served by a full disclosure of how all of such innovations relate and interact, assuming they are closely enough related to fit appropriately into one patent application. When people have to do research to try to find all the various separate disclosures that would otherwise exist for these separate but related and integral innovations in order to best make or use the new technique or tool, then the public loses overall. For instance, going back to the new tool for an innovative heart treatment, if the inventor is allowed to disclose the new treatment and the new tool both in one application then the public is benefited. On the contrary, if the public, in order to best take advantage of the new treatment, had to perform additional research to find the disclosure relating to the new tool then additional transaction costs have been incurred in getting the complete picture that was in the inventor's mind to the public and

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<sup>6</sup> For a review of the effects of poor patent administration on the U.S. economy, see generally Hot Property: the stealing of ideas in an age of globalization, Choate, Pat, Random House, 2005.

the public is not benefited as much. This example assumes that both inventions, the technique and the tool, can stand alone as separate inventions and can properly be disclosed independently. This is often the case for many of the most important technological breakthroughs that exist in the public arena.

However, a single inventor or small business usually does not have the economic wherewithal to pursue claims to all of the patentably distinct species disclosed in a comprehensive, groundbreaking and vital application. Therefore, the current continuation rules allow such an inventor to pursue the most important often generic claims initially while reserving the various other genus and species claims for future applications when he/she has acquired suitable funding from investors. This is a delicate balance currently struck by the existing continuation rules that is at great jeopardy under the Continuation Proposals. If the inventor is forced due to economic necessity and rules of practice to only pursue one invention disclosed in an application and one continuation, it is likely the inventor will not disclose the additional innovations to the public until he/she is financially able to do so. It is folly to think that an inventor would fully disclose more than he/she has to in order to get valid claims issued, if the patent office takes away the incentive to do so. Therefore, the delicate balance currently created by the existing continuation rules, which fosters the fullest disclosure as well as investment in innovation forms a vital part of the basis of our economy, small entrepreneurial companies. Any proposed rule changes that significantly affect this balance must be carefully and narrowly crafted in order to minimize the adverse impact such changes have on this balance and therefore our economy.

### **The Proposals:**

Under the Continuation Proposals, the Office proposes limiting the number of continuations, continuations-in-part, requests for continuing examination and divisionals an applicant can file by right to one. Any others would have to be supported with a petition stating reasons why such a filing could not have been made with the original application. Fallbrook vehemently opposes these proposals because they will INCREASE and not decrease patent pendency, because they are arbitrary, because they will lead to unforeseen and unintended negative consequences that are bad for the public, because they are untimely and because there are more simple and more effective alternatives.

### **Justification:**

The Office has stated that the main problem being addressed is pendency. This is a noble goal although a bit more art unit-specific than it is made out to be. Our company's typical pendency periods range from 18-24 months to first office action. This is fine for our needs. Apparently, the more egregious examples of extensive pendency periods are in different art units so we can only assume that they are correct for those specific art units. Additionally, the patent office states that these proposed rule changes will make the patent examination process more effective and efficient by reducing the amount of rework by the Office and reducing the time it takes for the patent review process. The underlying premise of the goal and the proposed changes is that by having

less continuations, continuations-in-part and divisionals on file the patent office will have fewer applications to review.<sup>7</sup> However, as will be seen from the comments below, *this premise is fundamentally and fatally flawed!* In addition the Office states that the changes will improve the quality of issued patents and ensure that the Office continues to promote innovation.<sup>8</sup> Is such an incentive really the applicant's problem to fix or is it the USPTO's? However, for the reasons that follow, these justifications do not support the changes and the changes will fail in the Office's main goal of trying to reduce pendency.

#### Underlying Premise:

The underlying premise stated repeatedly in the Federal Register is that continuation applications are "Rework" that would not otherwise exist except for the presence of the ability of applicants to file continuation applications. From listening to the Office describe the situation, proper conclusion of examination of an application should result in one set of claims that encompass the full scope of the invention contemplated by the inventor.

#### False Premise: Companies Seeking Protection of the Most Important Inventions Will File More Applications Not Less.

These assumptions and the underlying premise are erroneous to such an extent that they will actually **foster more applications and more backlog**. The only applications that result neatly in one patent with one set of claims that encompass the full scope of an invention are for inventions that are simple, straightforward and of such a limited scope that they do not add significantly to the public good. These sorts of inventions are the ones that add the least to the public value and the Office is hardly doing its job by fostering the least beneficial improvements, notwithstanding whatever level of efficiency it can achieve in doing so.

True inventions that add groundbreaking substance to the public, and the ones that should be fostered by the patent system, are ones that do not fit nicely into one group of claims in one patent. They often require several different patents to fully capture and

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<sup>7</sup> 71 Fed. Reg. 48, at 51

<sup>8</sup> 71 Fed. Reg. 48. Additionally, at the Winter Meeting of the AIPLA, John Doll and James Toupin took comments and questions from the attendees regarding the institution of these proposed rules changes. Several discussions involved the issue of poor examiners being hidden through continuation practice. When an applicant is faced with an improper rejection of certain claims while other claims are allowed, which happens on a regular basis in our experience, the applicant will often accept the allowed claims for issuance and elect to cancel the improperly rejected claims so that they may be pursued more fully in a continuation application. This allows the applicant to receive a patent initially with which to seek financing or move forward commercialization, while pursuing the additional broader claims to which it is entitled under the law in a continuation application. The point of the USPTO is that this is somehow wrong and the claims should properly be handled through an appeal of the original application. In our experience the appeals process is an unreasonably expensive alternative, and indeed is effectively no alternative to this. Small businesses would be saddled with fees ranging up to \$20,000 for beginning the appeals process for a complicated application and rejection, the ones examiners most often have difficulty with and that the one continuation of right under the new rules provides inadequate protection. This renders the appeals process an inadequate replacement for dealing with poor examiners. Furthermore, we are not sure that the burden for addressing poor examination should be placed on the applicants rather than the Office.

protect. Our company's technology, as well those of most drug companies, fall into this category. Such inventions often require long development cycles to prepare for disclosure to the public through publication or patenting. During this development new problems are often encountered that then must be solved as well, which can often lead to additional patentable discoveries. These are the types of developments that have supported our nation's economy over the past decade and indeed the ones that ensure our long term competitive advantage over countries such as India and China that can provide manufacturing at much lower costs due to lower standards of employee care.

Under the Office's proposed rules companies pursuing these fundamental innovations will be forced to file separate applications to each separate improvement discovered along the way in order to be able to protect each independent invention whereas currently companies often describe all such improvements in one application that clearly and completely shows the public as to how the various inventions operate and interrelate to provide the public with the knowledge of the best aspects of the innovation. Therefore, what the Office calls "Rework" today will, under its proposed rules, be new applications in the future. The Office will not be lowering its work level. As each of these improvements will be new applications, each requiring a new search and examination, and in many cases by different examiners unfamiliar with the subject matter. This will result in significantly longer examination periods for the same patentable inventions on the whole. The overall backlog will increase instead of decrease. This is not speculative. This is how our company and several others will operate under these rules and the Office will have exacerbated its own problem. This is totally independent of any justification that additional applications can be filed under the petition offered. Nobody will file such petitions, as they will simply file different applications at the initial application stage. There is no argument that can be made to counter this, as it is simply the natural response to such an arbitrary and draconian change.

Therefore, due to this response these rules, if implemented, will result in more work for the Office and not less. This in turn will result in longer backlogs while additionally leading to a reduced public good due to reduced notice of the interaction of various patents and applications. This cannot be the intent of the Office. Therefore, the rules proposed should not be adopted, rather the more simple changes provided below should be implemented instead.

#### The Limits Are Arbitrary:

As a general rule, anytime regulations are implemented that provide limits that are not based on any logical point, they tend to lead to unintended consequences. Again, the one allowed continuation of right with additional ones being allowed upon meeting some high burden is unsupported by any justification. There is no support that one continuation is more reasonable than two or five or ten in achieving the office's objective. The Office simply speculates conclusively that this provides applicants all the right they need. For our company, this will be untrue and we will respond as noted above. The Office will be more backlogged and the public will be worse for it.

Therefore, these rules changes should not be adopted because they are simply arbitrary and not well founded.

#### The Changes Are Untimely:

It is well documented that the Office's shortage of examiners and the subsequent backlog were caused by the shortage of funds as a result of fee diversion by Congress over the past decade.<sup>9</sup> In response to this the Office initiated one facet of the 21<sup>st</sup> Century Strategic Plan by implementing a set of fees that more effectively correlates the resources needed to examine and issue a patent with the fees for the application. This cost structure places a burden on applicants to conduct a cost-benefit analysis prior to filing each application and is a structure that can support the gathering of the resources needed to establish resources commensurate with the work level.

It is inappropriate to take additional actions to address the backlog of applications pending in the Office until the effects of this fee structure can be more fully appreciated. If it turns out that the trends in filing change over time due to the fee structure in the direction the Office desires, then any additional actions would be unnecessary and unwarranted. If the fee structure does not support the gathering of the necessary resources for the filing level, then it will be apparent that the fee structure is too low and should be adjusted. For having been in operation for over a hundred years, it would seem that the Office would have a good handle on the fees to be charged that exactly correlate to the resources needed to examine each application. Because the Office has only been operating in its current state for about two decades it is understandable that it has not fully reviewed the data and statistics in order to determine the appropriate fee for each application in order to adequately fund the Office. If there is a backlog that is unacceptable, it is because there are not enough resources to examine the workload at any point in time.

The complaints of extensive pendency should take into account the period of time transitioning from an era of diversion of the Office's resources to one where it is properly funded. It is natural that there will be a transition period of excess applications and this is exaggerated as new art units are added, such as the business methods unit. But it is inappropriate to take additional measures the effects of which will be unclear in light of all the simultaneous effects right now. For this reason these rules changes are untimely at this point.

#### The Right Choice: Fees That Suit the Application

The proposed rules changes for continuation practice are complex and fraught with peril for applicants and practitioners alike. If there is a more simple choice that relates more closely to the goal, without the attendant unintended consequences, then it is

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<sup>9</sup> See generally, the Comments of the AIPLA opposing the Continuation Proposals submitted April 24, 2006, at 2-3 available at <[www.aipla.org](http://www.aipla.org)>.

clear that such a choice is preferred.<sup>10</sup> The proposed rules changes should relate the cost of the application to the behavior intended to be modified.

If the Office truly sees continuations, divisionals, continuations-in-part and RCEs as a bad thing, then the fee structure for such practices should provide the proper level of incentive to motivate these behaviors. The European model is an effective tool for this incentive. If an applicant chooses to file a divisional in the EPO, then the applicant pays maintenance fees from the original priority date. This seems very reasonable and logical as the applicant is gaining priority from back to that date.

**RECOMMENDATION:** institute an application fee for these applications that claim priority to an earlier filing date that includes additional fees for each year or priority claimed. The Office can charge a fixed fee for each year or an escalating fee that goes up with the amount of priority claimed. Alternatively, the fee could include all the past maintenance fees or we could go to an annual fee basis like they do in nearly every other country in the world.

This arrangement affixes a fee that allows the gathering of resources attributable to the effort of examination caused by the “rework application” and also can be set to effect the behavior patterns of those the Office believes is gaming the system. This is a much more simple and elegant solution than the Continuation Proposals and would be a shame for an office that serves engineers and scientists to implement the least elegant and most ineffective and inefficient change.

For these reasons, we most strongly oppose the Continuation Proposals under 71 Fed. Reg. 48 and would beg the Office to reconsider the dire effects such changes would have on small businesses and on the economy.

fending off the efforts of Technology Pirates to steal the innovations developed by small companies and provides Premise: The proposed rules changes are inappropriate for multiple reasons. First, they are not timely. Second there has not been a sufficient showing that there is a significant enough problem to warrant such significant changes. Lastly, there does not appear to be a clear link or connection between the proposed changes and the stated goals; certainly no clear logical argument has been laid out. Rather, significant reliance on deduction and extrapolation is required to illustrate an effect that would facilitate the stated goals.

.Is such an incentive really the applicant’s problem to fix or is it the USPTO’s.<sup>11</sup>

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<sup>10</sup> Restating Achem’s Razor, one should usually eliminate as many variables as possible, which usually results in the simplest alternative being chosen.

<sup>11</sup> At the Winter Meeting of the AIPLA, John Doll and James Toupin took comments and questions from the attendees regarding the institution of these proposed rules changes. At this meeting several discussions involved the issue of poor examiners being hidden through continuation practice. When an applicant is faced with an improper rejection of certain claims while other claims are allowed, which happens on a regular basis in our experience, the applicant will often accept the allowed claims for issuance and elect to cancel the improperly rejected claims so that they may be pursued more fully in a continuation application.

## **Claims Proposals**

In response to the Claims Proposals under 71 Fed. Reg 61, Fallbrook generally opposes the changes on the basis that the proposed changes are too complex and burdensome on practitioners and the Office. As an alternative we would suggest an escalating fee structure for high numbers of claims.

While we agree that some change is appropriate in order to curb the filing of high claim applications, the we believe that the practice should be curbed by an escalating fee structure instead of an assortment of requirements and filings to support such a filing. Again, the simpler solution is usually the wiser.

## **Conclusion**

We thank the Office for the opportunity to comment on the proposed changes. We also fully appreciate the position in which Congress has put the Office through a decade of fee diversion. However, we can in no way support the changes proposed by the Office to address its backlog because the changes will make the problem worse not better while severely and negatively impacting the ability of small businesses to protect their innovations, find financing and operate. As these businesses are vital to our nations future, we cannot support the institution of these changes when there is a much simpler solution with less drastic effects: namely a fee structure that reflects the priority being claimed in applications at issue. Furthermore, we would support a more simple solution to the problem of applications that include high numbers of claims: namely the institution of a fee structure that escalates with the number of claims filed.

Sincerely,

Jeffrey Birchak  
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Fallbrook Technologies Inc.