

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT
MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 1 of 10

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COMMENTS OF STEVEN M. HOFFBERG ON
“CHANGES TO IMPLEMENT MICRO ENTITY STATUS
FOR PAYING PATENT FEES”
NOTICE OF PROPOSED RULEMAKING

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
37 CFR Part 1
[Docket No.: PTO-P-2011-0016]
RIN 0651-AC78

Dear Mr. Tamayo:

The undersigned is a patent attorney in private practice and inventor who personally would not generally qualify as a micro entity, but represents clients who would likely qualify, under 35 U.S.C. § 123(a) or (d).

35 U.S.C. § 123, provides:

35 U.S.C. 123 Micro entity defined.

(a) IN GENERAL.--For purposes, the term ‘micro entity’ means an applicant who makes a certification that the applicant--

(1) qualifies as a small entity, as defined in regulations issued by the Director;

(2) has not been named as an inventor on more than 4 previously filed patent applications, other than applications filed in another country, provisional applications under section 111(b), or international applications filed under the treaty defined in section 351(a) for which the basic national fee under section 41(a) was not paid;

(3) did not, in the calendar year preceding the calendar year in which the applicable fee is being paid, have a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986, exceeding 3 times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census; and

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT
MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 2 of 10

(4) has not assigned, granted, or conveyed, and is not under an obligation by contract or law to assign, grant, or convey, a license or other ownership interest in the application concerned to an entity that, in the calendar year preceding the calendar year in which the applicable fee is being paid, had a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986, exceeding 3 times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census.

(b) APPLICATIONS RESULTING FROM PRIOR EMPLOYMENT.--An applicant is not considered to be named on a previously filed application for purposes of subsection (a)(2) if the applicant has assigned, or is under an obligation by contract or law to assign, all ownership rights in the application as the result of the applicant's previous employment.

(c) FOREIGN CURRENCY EXCHANGE RATE.--If an applicant's or entity's gross income in the preceding calendar year is not in United States dollars, the average currency exchange rate, as reported by the Internal Revenue Service, during that calendar year shall be used to determine whether the applicant's or entity's gross income exceeds the threshold specified in paragraphs (3) or (4) of subsection (a).

(d) INSTITUTIONS OF HIGHER EDUCATION.--For purposes of this section, a micro entity shall include an applicant who certifies that--

(1) the applicant's employer, from which the applicant obtains the majority of the applicant's income, is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); or

(2) the applicant has assigned, granted, conveyed, or is under an obligation by contract or law, to assign, grant, or convey, a license or other ownership interest in the particular applications to such an institution of higher education.

(e) DIRECTOR'S AUTHORITY.--In addition to the limits imposed by this section, the Director may, in the Director's discretion, impose income limits, annual filing limits, or other limits on who may qualify as a micro entity pursuant to this section if the Director determines that such additional limits are reasonably necessary to avoid an undue impact on other patent applicants or owners or are otherwise reasonably necessary and appropriate. At least 3 months before any limits proposed to be imposed pursuant to this subsection take effect, the Director shall inform the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate of any such proposed limits.

37 C.F.R. § 1.29(a), (b) and (c) appear to correspond to 35 U.S.C. § 123(a), (b), and (c), thus the proposed sections appear to be within the discretion of the Director.

The Statute clearly requires in 35 U.S.C. § 123(a) that a micro entity is an entity that also qualifies as a small entity.

35 U.S.C. § 123(d)(1) and (d)(2) clearly assert **no such requirements**.

Proposed rule 37 C.F.R. § 1.29(d) requires “To establish micro entity status under this paragraph, the applicant must certify that: (1) The applicant qualifies as a small entity as defined in § 1.27; and ...” Therefore, proposed rule 37 C.F.R. § 1.29(d) has an added, extrastatutory requirement that finds no rational basis in the statute as drafted and

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 3 of 10

enacted, and while the Director has certain authority to draft rules under 35 U.S.C. § 123(e), it is not clear that the deviation from the statute is justified in this case. Note that it is the applicant that makes the certification, and it is the applicant’s employment status or whether it has assigned to a qualified institution of higher education that is dispositive, and not whether the applicant is itself a small entity.

On the other hand, the requirement under 35 U.S.C. § 123(d)(2) clearly indicates a different legislative intent: “(2) the applicant has assigned, granted, conveyed, or is under an obligation by contract or law, to assign, grant, or convey, a license or other ownership interest in the particular applications to such an institution of higher education”. As drafted, 35 U.S.C. § 123(d)(2) permits micro entity status to be awarded even if only **partial** interest is awarded to a qualified institution of higher education. In the same way that a partial interest in a patent application to a large entity results in large entity status under 37 C.F.R. § 1.27(a), according to 35 U.S.C. § 123(d)(2), a partial interest in a patent application to a qualified institution of higher education results in micro entity status.

Further supporting this interpretation, 35 U.S.C. § 123(d)(1) makes no mention of how the applicant disposes of his rights, and therefore so long as the applicant remains employed by the institution.

The legislative history of this section makes clear that 35 U.S.C. § 123(d) was intended, no less than the Bayh Dole act of 1980, to reshape the dynamics of patents with respect to cost-benefit, incentives and exploitation of intellectual property rights by institutions of higher education. It makes no sense to penalize educational institutions for making their innovations more generally available to the public, even including large entities that may best positioned to bring these innovations to market.

The incentives created by the statute as written, 35 U.S.C. § 123(d)(2) permit universities to license, option, or engage in a partial grant of rights to large entities, without risking their micro entity status. Thus, they can receive research and development funds from organizations other than nonprofit organizations and the state and federal government, while retaining the benefits of reduced fees. Likewise complex funding agreements would not complicate the determination of entity status.

For example, a Material Transfer Agreement (MTA) is often drafted to include a right of the recipient to employ the materials provided without risk of claims of infringement. That is, the MTA includes at least a research-use license under the relevant patent rights. According to the proposed 37 C.F.R. § 1.29(d), the University Technology Transfer Office must investigate, in each instance, whether every counterparty to an MTA qualifies as a small entity.

A further example is more troubling: If a University seeks to comply with GPL3, <http://www.gnu.org/licenses/gpl-3.0.html>, a mandatory patent license for “essential patent claims”:

11. Patents.

A “contributor” is a copyright holder who authorizes use under this License of the Program or a work on which the Program is based. The work thus licensed is called the contributor's “contributor version”.

A contributor's “essential patent claims” are all patent claims owned or controlled by the contributor, whether already acquired or hereafter acquired, that would be infringed by some manner, permitted by this License, of making, using, or selling its contributor version, but do not include claims that would be infringed only as a consequence of further modification of the contributor version. For purposes of this definition, “control” includes the right to grant patent sublicenses in a manner consistent with the requirements of this License.

Each contributor grants you a non-exclusive, worldwide, royalty-free patent license under the contributor's essential patent claims, to make, use, sell, offer for sale, import and otherwise run, modify and propagate the contents of its contributor version.

In the following three paragraphs, a “patent license” is any express agreement or commitment, however denominated, not to enforce a patent (such as an express permission to practice a patent or covenant not to sue for patent infringement). To “grant” such a patent license to a party means to make such an agreement or commitment not to enforce a patent against the party.

If you convey a covered work, knowingly relying on a patent license, and the Corresponding Source of the work is not available for anyone to copy, free of charge and under the terms of this License, through a publicly available network server or other readily accessible means, then you must either (1) cause the Corresponding Source to be so available, or (2) arrange to deprive yourself of the benefit of the patent license for this particular work, or (3) arrange, in a manner consistent with the requirements of this License, to extend the patent license to downstream recipients. “Knowingly relying” means you have actual knowledge that, but for the patent license, your conveying the covered work in a country, or your recipient's use of the covered work in a country, would infringe one or more identifiable patents in that country that you have reason to believe are valid.

If, pursuant to or in connection with a single transaction or arrangement, you convey, or propagate by procuring conveyance of, a covered work, and grant a patent license to some of the parties receiving the covered work authorizing them to use, propagate, modify or convey a specific copy of the covered work, then the patent license you grant is automatically extended to all recipients of the covered work and works based on it.

A patent license is “discriminatory” if it does not include within the scope of its coverage, prohibits the exercise of, or is conditioned on the non-exercise of one or more of the rights that are specifically granted under this License. You may not convey a covered work if you are a party to an arrangement with a third party that is in the business of distributing software, under which you make payment to the third party based on the extent of your activity of conveying the work, and under which the third party grants, to any of the parties who would receive the covered work from you, a discriminatory patent license (a) in connection with copies of the covered work conveyed by you (or copies made from those copies), or (b) primarily for and in connection with specific products or compilations that contain the covered work, unless you entered into that arrangement, or that patent license was granted, prior to 28 March 2007.

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT
MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 5 of 10

Nothing in this License shall be construed as excluding or limiting any implied license or other defenses to infringement that may otherwise be available to you under applicable patent law.

In many cases, it is difficult to know whether a work includes GPL3 covered code, and the academic authors and students working on a project may later include patented technologies into an open source project. The practical implications of proposed 37 C.F.R. §1.29(d) are, since the entire world (including large entities) would be licensed under the patent if it includes any GPL3 code, are that the University community would be blocked from claiming micro entity status, even though no large entity might be using the technology, or even know that it is licensed.

There are, of course, numerous other examples of harm to universities, without compelling public benefit, as a result of the added requirement for small entity status imposed by proposed 37 C.F.R. § 1.29(d)(1).

Hence, the incentives provided by 35 U.S.C. § 123(d) for the creation and protection of intellectual property, and the licensing of that technology in order to achieve public availability of embodiments of the technology, would be undermined by proposed 37 C.F.R. § 1.29(d). That is, Universities would either simply pay the small or large entity fees, rather than performing a very expensive and unreliable investigation to determine fully whether micro entity status applies, or jealously guard micro entity status by refusing to permit use of the technology, and thus deny public benefit. Neither result is in the public interest, and neither result is required by 35 U.S.C. § 123(d).

Therefore, it is respectfully submitted that proposed 37 C.F.R. § 1.29(d) should be amended as follows, consistent with 35 U.S.C. § 123(d):

(d) To establish micro entity status under this paragraph, the applicant must certify that :

~~—(1) The applicant qualifies as a small entity as defined in § 1.27; and~~

~~—(2)(i) (1) The applicant's employer, from which the applicant obtains the majority of the applicant's income, is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); or~~

~~(ii) (2) The applicant has assigned, granted, conveyed, or is under an obligation by contract or law, to assign, grant, or convey, a license or other ownership interest in the particular applications to such an institution of higher education.~~

The Comments of Richard Neifeld Ph.D. dated June 19, 2012, address a different issue, the fact that an institution of higher education might be beneficiary of an insubstantial ownership interest or license (e.g., such as under an MTA from another institution as discussed above) that would give rise to an ability of an applicant unrelated to the university to claim micro entity status. It is believed that correction of this issue requires legislative intervention, in a manner that would correct the corresponding defect in small entity certification. In each case, the statute fails to provide guidance on the amount of ownership interest required to be a micro entity or large entity. Without legislative correction, there would appear to be no rule that would avoid being arbitrary and capricious that would interpret “license or other ownership interest” as other than

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 6 of 10

written. Since a license is specified, one cannot require that the institution of higher education be an indispensable party to an infringement or validity litigation, nor are these issues the province of patent office regulatory authority. In short, despite the possibility for abuse, no reasonable regulatory remedy is available that is consistent with the statutory scheme; a patent procured by means of such deceptions will be brought to the attention of a court if ever enforced, which will then determine whether applicant committed an offense worthy of patent unenforceability or other sanction. The issue will then reflect back on whether applicant acted reasonably when making the certification, and this risk will self-police the issue.

37 C.F.R. § 1.29(e) would need a corresponding amendment to distinguish (a) and (d) claims to micro entity status. I propose the following amendment:

(e) (1) Small entity status must be asserted in compliance with § 1.27 in an application for micro entity status under paragraph (a) of this section, to be established in such application. Micro entity status under paragraph (a) of this section, is established in an application in which small entity status is asserted in compliance with § 1.27 by filing a micro entity certification in writing of compliance with the requirements of either paragraph (a) ~~or paragraph (d)~~ of this section and is signed in compliance with § 1.33(b).

(e)(2) Micro entity status under paragraph (d) of this section is established by certification in writing of compliance with the requirements of paragraph (d) of this section, which may be a separate paper or included with a document demonstrating an interest according to sub paragraph (d)(2)(ii) of this section, recorded in accordance with 37 C.F.R. Part 3.

~~(e)(3) Status as a micro entity must be specifically established in each related, continuing and divisional reissue application in which status is appropriate and desired. Status as a micro entity in one application or patent does not affect the status of any other application or patent, regardless of the relationship of the applications or patents. The refiling of an application under § 1.53 as a continuation, divisional, or continuation-in-part application (including a continued prosecution application under § 1.53(d)), or the filing of a reissue application, requires a new certification of entitlement to micro entity status for the continuing or reissue application.~~

It is believed that a status as a micro entity in one application does affect the status of other applications, and to state otherwise by rule is error. The USPTO should establish a database of various certification types, perhaps as part of PAIR, and thus permit annual updating of applicant status, rather than individual application status. While an inventor may be a micro entity for some applications and not for others, that does not mean that there is no “effect”.

Because micro entities may have difficulty complying with USPTO rules, strict foreclosure of the micro entity status benefits due to innocent non-compliance seem counterproductive. I therefore propose to amend 37 C.F.R. § 1.29(f) as follows:

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 7 of 10

(f) A fee ~~may be~~ paid in the micro entity amount will be deemed sufficient only if it is submitted with, or subsequent to, the submission of a certification of entitlement to micro entity status, or a certification of entitlement to micro entity status is submitted by applicant in response to a Notice of Fee Deficiency.

37 C.F.R. § 1.29(i) represents a burden on applicants that seems unnecessary. If an applicant pays a fee for small or large entity, that fee should be accepted by the Office, subject to a request for refund if the fee was paid in error. As discussed above, there are some circumstances where an micro entity status determination cannot be accurately assessed. The simple penalty for not being able to accurately determine the status should be the small or large entity fees, as the case may be. However, requiring a mandatory “Notification of a loss of entitlement to micro entity status” before paying the fees for other entity status creates a significant burden, without corresponding public benefit or significant efficiencies for the Office. Quite simply, the Office should accept fee payments for entity status other than micro entity, without additional papers or certifications.

Note that 35 U.S.C. § 123 requires “(a) IN GENERAL.--For purposes, the term ‘micro entity’ means an applicant who makes a certification that the applicant...” There is no corresponding requirement for a certification of *loss* of micro entity status, and to require such a certification imposes an unnecessary burden.

I propose to amend 37 C.F.R. § 1.29(i) as follows:

(i) Notification of a loss of entitlement to micro entity status ~~must~~ may be filed in the application or patent ~~prior to paying, or at the time of paying, any fee after the date on which~~ if the entity has previously claimed micro entity status, and that status as a micro entity as defined in paragraph (a) or (d)(1) of this section is no longer appropriate. The notification that micro entity status is no longer appropriate must be signed by a party identified in § 1.33(b). Payment of a fee in other than the micro entity amount is not sufficient notification that micro entity status is no longer appropriate, however, such fees will be accepted, subject to a request for refund from applicant if the fees were paid in error. Once a notification of a loss of entitlement to micro entity status is filed in the application or patent, a written assertion of small entity status under § 1.27(c)(1) for micro entities claiming micro entity status under paragraph (a) of this section is required to obtain small entity status, and a new certification of entitlement to micro entity status is required to again obtain micro entity status.

Similarly, 37 C.F.R. § 1.29(k) imposes unnecessary and expensive burdens, especially where the purpose of 35 U.S.C. § 123 is intended to reduce applicant burden. I propose the following amendments:

(k) If status as a micro entity is established in good faith in an application or patent, and fees as a micro entity are paid in good faith in the application or patent, and it is later discovered that such micro entity status either was established in error, ~~or that the Office was not notified of a loss of entitlement to~~

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 8 of 10

~~micro entity status as required by paragraph (i) of this section through error, the error will be excused upon compliance with the separate submission and itemization requirements of paragraph (k)(1) of this section and the deficiency payment requirement of paragraph (k)(2) of this section.~~

(1) Any paper submitted under this paragraph must be limited to the deficiency payment (all fees paid in error) required for a single application or patent. Where more than one application or patent is involved, separate submissions of deficiency payments are required for each application or patent (see § 1.4(b)). The paper must contain ~~an itemization of the total deficiency payment for the single application or patent and include the following information:~~

~~(i) Each particular type of fee that was erroneously paid as a micro entity, (e.g., basic statutory filing fee, two-month extension of time fee) along with the current fee amount for a small or non-small entity, as applicable;~~

~~(ii) The micro entity fee actually paid, and the date on which it was paid;~~

~~(iii) The deficiency owed amount (for each fee erroneously paid);~~

~~and~~

~~(iv) The total deficiency payment owed, which is the sum or total of the individual deficiency owed amounts as set forth in paragraph (k)(2) of this section.~~

(2) The deficiency owed, resulting from the previous erroneous payment of micro entity fees, must be paid. The deficiency owed for each previous fee erroneously paid as a micro entity is the difference between the current fee amount for a small entity or non-small entity, as applicable, on the date the deficiency is paid in full and the amount of the previous erroneous micro entity fee payment. The total deficiency payment owed is the sum of the individual deficiency owed amounts for each fee amount previously and erroneously paid as a micro entity.

(3) If the requirements of paragraphs (k)(1) and (k)(2) of this section are not complied with, such failure will either be treated at the option of the Office as an authorization for the Office to process the deficiency payment and charge the processing fee set forth in § 1.17(i), or result in a requirement for compliance within a one-month time period that is ~~not~~ extendable under § 1.136(a) to avoid the return of the fee deficiency payment.

(4) Any deficiency payment (based on a previous erroneous payment of a micro entity fee) submitted under this paragraph will be treated as a notification of a loss of entitlement to micro entity status under paragraph (i) of this section, but payment of a deficiency based upon the difference between the current fee amount for a small entity and the amount of the previous erroneous micro entity fee payment will not be treated as an assertion of small entity status under § 1.27(c). Once a deficiency payment is submitted under this paragraph, a written assertion of small entity status under § 1.27(c)(1) is required to obtain small entity status.

In addition, it is believed that the complexity of proposed 37 C.F.R. § 1.29 as a whole will dissuade applicants and practitioners representing them from making use of

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT
MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 9 of 10

the micro entity status fee reduction. Rather than making 37 C.F.R. § 1.29 as complex as § 1.27, perhaps it is § 1.27 that should be simplified. Therefore, there is a compelling public interest in shifting burden away from those least able to afford it, even of this means some increased burden on the Office.

The Office asserts:

To the extent that 35 U.S.C. 123(d) (unlike 35 U.S.C. 123(a)) does not expressly require that an applicant qualify as a small entity under § 1.27, the Office is invoking its authority under 35 U.S.C. 123(e) to expressly require that a party claiming micro entity status via 35 U.S.C. 123(d) qualify as a small entity under § 1.27. The legislative history of 35 U.S.C. 123 is clear that it is directed to a subset of small entities, namely, "truly independent inventors." See H.R. Rep 112-98 at 50 (2011) ("[t]he Committee was made aware, however, that there is likely a benefit to describing-and then accommodating-a group of inventors who are even smaller [than small entities], in order to ensure that the USPTO can tailor its requirements, and its assistance, to the people with very little capital, and just a few inventions, as they are starting out. This section of the Act defines this even smaller group-the micro-entity-that includes only truly independent inventors"). Thus, permitting an applicant who does not qualify as a small entity to take advantage of the benefits of micro entity status via 35 U.S.C. 123(d) would be inconsistent with the purposes of micro entity provisions of 35 U.S.C. 123. The statute and its legislative history do not, for example, contemplate a for-profit, large entity applicant becoming a "micro entity" (and thus obtaining a 75 percent discount) merely by licensing or assigning some interest (even merely a nominal or miniscule interest) to an institution of higher education. Accordingly, the Office has determined that requiring all micro entities to qualify as small entities is reasonably necessary and appropriate to ensure that applicants who do not qualify as a small entity do not inappropriately attempt to take advantage of micro entity status.

An exercise of discretion under 35 U.S.C. § 1.29(e) requires an express finding “if the Director determines that such additional limits are reasonably necessary to avoid an undue impact on other patent applicants or owners or are otherwise reasonably necessary and appropriate.” The rules pack presents no particular analysis that supports this administrative finding, and thus is arbitrary and capricious.

Further, the quoted legislative history appears to address only 35 U.S.C. § 123(a), and thus would not be expected to encompass the different considerations of 35 U.S.C. § 123(d). It was well known to the legislators that institutions encompassed within 35 U.S.C. § 123(d) may be quite large, and it is unfair to characterize the legislative history as supporting the conclusion “The legislative history of 35 U.S.C. 123 is clear that it is directed to a subset of small entities, namely, "truly independent inventors." See H.R. Rep 112-98 at 50 (2011)”. Quite simply, 35 U.S.C. § 123(a) and (d) address quite different political goals, and seeking to conform them for administrative convenience is inconsistent with the statute.

COMMENTS OF STEVEN M. HOFFBERG ON “CHANGES TO IMPLEMENT
MICRO ENTITY STATUS FOR PAYING PATENT FEES”

Page 10 of 10

With respect to 37 C.F.R. § 1.29(e), 35 U.S.C. § 123(d)(2) imposes the burden on the inventor who assigns the invention to the university to make the certification. Once the assignment is complete, the statutory requirements for meeting micro entity status are vested. That is, so long as applicant has assigned, etc. rights to the institution of higher education, the requirements of 35 U.S.C. § 123(d) are met, and there is no provision under 35 U.S.C. § 123(d)(2) for loss of those rights, except perhaps if the “obligation” no longer exists.

After an assignment is made complying with 35 U.S.C. § 123(d)(2), an inventor may be largely dissociated from the patent application process. Therefore, it makes sense to include the certification required by statute in the assignment itself, which can be conveniently be recorded under 37 C.F.R. Part 3. Alternately, this can be included within a Declaration and Power of Attorney. Indeed, the assignment recordation cover sheet may be modified to include an indication of the relevant certification, and thus automatically populate the USPTO database with the correct information. This would appear to be a preferred way of managing micro entity status for universities. It is noted that if the micro entity status certification requirement does not apply to the assignee.

Based on the discussion above, it is believed that a number of burdens imposed by proposed 37 C.F.R. § 1.29 fail to comply with at least Executive Order 13563. Specifically, the Office has failed to conduct a burden/benefit analysis which includes realistic professional services fees for patent practitioners, the time involved in understanding and complying with the rule, the sanctions imposed by rule, for example for paying a correct larger fee but not filing a certification not mandated by law, etc. Further, the proposed rule fails to consider the value to society of university inventions, for which 35 U.S.C. § 123(d) seeks to provide specific benefits, and which imposes no limits on how a university might seek to exploit its rights. The rules impose significant burdens for the affected applicants, and to the extent that the lack of fee discount might prevent or delay public availability of an invention, the rule is not “tailored ... to impose the least burden on society consistent with obtaining the regulatory objectives”.

It is believed that the estimate of 3,000 respondents per year is a significant underestimate of the number of impacted parties, i.e., “respondents”. In fact, *every* inventor employed outside of large entities will likely be confronted with the various certifications, even if not made. Of those who qualify, there may be tens of thousands of university professors who qualify under 35 U.S.C. 123(d). Indeed, university students on work-study may qualify under 35 U.S.C. § 123(d)(1).

Respectfully Submitted

/Steven M. Hoffberg/

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Reg. 33,511