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Commentary

## **THE MAINTENANCE FEE SYSTEM AND POLICY OF THE PATENT AND TRADEMARK OFFICE: ARBITRARY, IRRESPONSIBLE AND IN NEED OF REFORM**

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The monopoly granted by U.S. utility patents issuing on applications having an actual filing date on or after December 12, 1980 are subject to the payment of maintenance fees. Pub. L. 96-517, § 2, 94 Stat. 3015, 3017 (1980) ("P.L. 96- 517"); 35 U.S.C. § 41(b). The late payment of any maintenance fee may be accepted if the delay in payment is shown to have been "unavoidable." 35 U.S.C. § 41(c)(1); Pub. L. 97-247, § 3(c), 96 Stat. 317,318(1982)("P.L. 97- 247"). This should be old news to practitioners prosecuting utility patent applications before the United States Patent and Trademark Office ("PTO").

However, due to the policy of the PTO, the patent bar is faced with questions regarding a what constitutes an "unavoidable" delay in the payment of a maintenance fee. This commentary will examine the maintenance fee system envisioned by Congress in enacting P.L. 96-517 and P.L. 97-247, the maintenance fee system and policy of the PTO, will analyze the case of a successful petition for acceptance of a delayed maintenance fee payment, and address the problems facing the patent bar and propose possible solutions.

### The Maintenance Fee System Envisioned By Congress

P.L. 96-517 was the enactment of H.R. 6933, as amended. See 509 P.T.C.J. A-1 (Dec. 18,1980). H.R. 6933 was designed to restore public confidence in the PTO and addressed patent policy for government agencies, patent reexamination, and patent and trademark fees, including maintenance fees, inter alia. See 126 Cong. Rec. 29890, et seq. (1980), reprinted in 505 P.T.C.J. E-1, et seq. (Nov. 20, 1980).

The legislative history of H.R. 6933 provides insight into the maintenance fee system envisioned by Congress. In passing H.R. 6933, the Floor Remarks from the House of Representatives contain the following exchange:

MR. MILLER of Ohio. . . . Under [H.R. 6933] the [patent] fee would be increased to cover approximately 50 percent of the cost of administering the patent. Does that mean that the patent fee will double? . . .

\*96 MR. KASTENMEIER. Yes, over the life of the patent. . . . We have tried to make this somewhat more equitable or easier to meet the costs by what we call a maintenance fee so that the cost can be paid over the life of an effective patent rather than for, let us say, the inventor speculating at the outset that his patent may be worthy of such an investment. . . .

The cost of actually acquiring a patent at the outset will be no more. . . . What we have done really is to say to the inventor, if your invention is worthy, is productive in subsequent years, then those fees, which you would rather not bear at the beginning but at subsequent periods of time, should be easier to pay than by any other method. . . .

We [organized] the payment in the European method so that the small inventor can determine how useful his invention really is, does it have a payoff in subsequent years so that he can afford not a much larger initial fee payment but one which is graduated over a period of time.

126 Cong. Rec. 29900, reprinted in 505 P.T.C.J. E-10 -- E-11 (Nov. 20, 1980).

Before the Senate passed H.R. 6933, Senator Birch Bayh's unopposed statements were:

The House provision includes a system of maintenance fees so that a patent holder can spread out his payments over a number of years. I believe that the Senate should accept this concept with the provision that patent holders be personally notified through the mail shortly before their payments are due. I fear that unless this is done small business patent holders or independent inventors might inadvertently miss a deadline and thereby permit their patent to lapse. So with this one minor addition in the legislative history of the fee provision, I recommend that it be accepted.

126 Cong. Rec. 30364-65 (1980), reprinted in, 506 P.T.C.J. E-5 (Nov.27, 1980).

In its original form, though, the maintenance fee system did not provide for the acceptance of an unavoidably delayed payment. This came about through P.L. 97-247, the enactment of H.R. 6260. See 96 Stat. 317 (1982). The legislative history for this amendment to Section 41 of Title 35 indicates that the provision allowing acceptance of late payment of maintenance fees was included "[i]n order to avoid an inequitable loss of patent rights." H.Rep. 542, 97th Cong., 2d Sess., at 8 (1982) (accompanying H.R. 6260).

From the foregoing, Congress envisioned a maintenance fee system whereby if a patent was of commercial value, the patent owner could afford and would pay fees during the life of the patent when "the invention is worthy, is productive in [those] subsequent years." Further, it is unquestionable that Congress envisioned a maintenance fee system wherein the PTO notifies patent holders personally, through the mail, shortly before their payments are due. Moreover, Congress wanted the PTO to accept delayed payments of maintenance fees "to avoid an inequitable loss of patent rights," i.e., that Congress meant for \*97 "unavoidable" as used in Section 41 of Title 35 to be an equitable standard.

However, the maintenance fee system envisioned by Congress is not the maintenance fee system of the PTO.

## The Maintenance Fee System And Policy Of The PTO

Nearly two years after the enactment of P.L. 96-517, and apparently without regard to its legislative history, the PTO published its final rules for maintenance fees. See 1046 O.G. 28. The final rules state that the term "unavoidable" is the same as that for reviving an abandoned application under Section 133 of Title 35. However, contrary to Congress' intent in creating a maintenance fee system and the caselaw under Section 133, the final rules continue by stating:

[T]he Patent and Trademark Office has no duty to notify patentees when their maintenance fees are due. It is the responsibility of the patentee to assure that the maintenance fees are paid to prevent expiration of the patent. The Patent and Trademark Office will, however, provide some notices as reminders that maintenance fees are due, but the notices, errors in the notices, or the lack of notices, will in no way relieve a patentee from the responsibility to make timely payment of each maintenance fee to prevent the patent from expiring by operation of law. The notices provided by the Patent and Trademark Office will be merely courtesy in nature and intended to aid patentees. These notices, error in these notices, or the lack of notices, will in no way shift the burden of monitoring the time for paying maintenance fees on patents from the patentee to the Patent and Trademark Office.

1046 O.G. at 34. Likewise, the final rules provide that "an argument that the patentee was ignorant of the requirement to pay maintenance fees will not constitute a showing of unavoidable delay." *Id.*

So, while Congress had charged the PTO with the power to issue letters patent and collect maintenance fees to prevent patent expiration, the PTO decided that it had no duty to notify patentees when the payments were due, i.e., the PTO arbitrarily decided that it had no duty to notify patentees that their property was in jeopardy due to the failure to pay maintenance fees. However, the PTO is also charged with granting patents.

Interestingly, as to providing patentees with any kind of notice of the necessity to pay maintenance fees upon the grant of the deed of letters patent, the PTO did not modify the deed of grant to notify the patentee and his assigns that the grant of the exclusive right to practice the invention was subject to the payment of maintenance fees until approximately patents issuing August 2, 1983, when stickers began to be applied to the inside cover of the deed; and, not until approximately patents issuing July 3, 1984 were the words "subject to the payment of maintenance fees" placed on the front cover of the deed. See *Advanced \*98 Handicapping Technology, Inc. v. Quigg*, Civ. Act. No. 88-1793, Complaint, 10, (Filed D.D.C. June 30, 1988; Dismissed September 7, 1988 in view of *In re Patent No. 4,382,280*, (Comm'r. September 2, 1988) (unpublished)).

As to patents which issued with no notice of the requirement to pay maintenance fees, it is unquestionable that the PTO has a duty to notify the patent holders when their maintenance fees are due. See 126 Cong. Rec. 30364- 65 (1980) (discussed supra); *In re Patent No. 4,382,280*, (Comm'r. September 2, 1988)(discussed infra).

One must wonder how effective the notice by stickers was: the front cover of the deed stated that the patent was subject to the payment of issue fees; the sticker was placed on the inside cover of the deed; and, inter alia, it read, "The amount, number and timing of the maintenance fees required may be changed by law or regulation". It is submitted that since "[t]he amount, number and timing of the maintenance fees . . . may be changed," the PTO also has a duty to notify patent holders having such an original deed of letters patent.

Thus, patent holders who either never received or received a defective Maintenance Fee Reminder, PTO Form 440, and whose deed of letters patent either contained no notice as to the duty to pay maintenance fees or had a sticker on the inside cover thereof, the PTO failed to provide adequate notice of the duty to pay maintenance fees and any delay in the payment of a maintenance fee by such patent holders would be "unavoidable."

Nevertheless, the decisions of the PTO denying petitions to accept delayed payments of maintenance fees under such facts have been, it is submitted, draconian, and like the final rules, contrary to caselaw and Congressional intent.

#### The Caselaw Under Section 133 And A Maintenance Fee Case

According to the caselaw with respect to Section 133:

"[The word 'unavoidable'] is applicable to ordinary human affairs, and requires no more or greater care than is generally used and observed by prudent and careful men in relation to their most important business. It permits them in the exercise of this care to rely upon the ordinary and trustworthy agencies of mail and telegraph, worthy and reliable employees, and such other means and instrumentalities as are usually employed in such important business. If unexpectedly, or through the unforeseen fault or imperfection of these agencies and instrumentalities, there occurs a failure, it may properly be said to be unavoidable, all other conditions of promptness in its rectification being present."

In re Katrapat, AG, 6 U.S.P.Q.2d 1863, 1866 (Comm'r. 1988) (quoting Ex parte Pratt, 1887 Dec. Comm'r. Pat. 31, 32-33 (Comm'r. 1887)). In \*99 sum, it is respectfully submitted that the "unavoidable delay" standard is a "reasonable person standard," i.e., did the persons involved act reasonably and there was a delay nonetheless.

Thus, under Section 133, the failure to receive an Office Action is an unavoidable delay in responding thereto. M.P.E.P. § 711.03(c); see also Delgar, Inc. v. Schuyler, 172 U.S.P.Q. 513 (D.D.C. 1971). Moreover, it has been recognized that Section 133 of Title 35 requires notice from the PTO of the need to act coupled with the failure to act in order to result in a holding of abandonment governed by the "unavoidable" standard. See Mobil Oil Corp. v. Dann, 448 F. Supp. 487, 491-92, 198 U.S.P.Q. 347, 352, (D.D.C. 1978).

In contrast, as to "expiration" governed by the "unavoidable" standard under Section 41, the PTO decided that it has no duty to provide a patent holder with notice of the need to act regarding a due payment of a maintenance fee and has put the onus upon the patent holder to act on his own. See 1046 O.G. 28. Not only, as shown above, is this improper, but, it has protracted the payment of maintenance fees and it is respectfully submitted, has led to either the wrongful expiration of patents or to wrongfully prolonged "expiration" (or period before reinstatement) of patents, at great expense to patent holders.

Take for example the factual and procedural history of In re Patent No.4,382,280 (Comm'r. September 2, 1988) (unpublished). In this case, the patent owner had co-invented the subject matter while associated with Mattel of Hawthorne, California, and assigned to Mattel his interest in application Serial No. 221,487, filed December 30, 1982, which matured into U.S. Patent No. 4,382,280 on May 3, 1983 ("the 280 Patent"). Attorneys for Mattel prosecuted the application; and, were under standing orders from Mattel not to docket it or any Mattel patents for maintenance fee payments, such was Mattel's responsibility.

After diminishing sales by Mattel of the "Horse Race Analyzer," an embodiment of the invention of U.S. Patent No. 4,382,280, the coinventor formed Advanced Handicapping Technology ("AHT") and with the services of a general practitioner (not registered to practice before the PTO), AHT acquired all right, title and interest in the Horse Race Analyzer, including the 280 Patent. Understandably, AHT was not advised of the requirement to pay maintenance fees or of recording the assignment of the 280 Patent. In addition, upon assigning the 280 Patent to AHT, Mattel removed the 280 Patent from its docket.

The original deed of letters patent for the 280 Patent failed to mention the requirement to pay maintenance fees; and, no Maintenance Fee Reminder, PTO Form 440, with respect to the 280 Patent was ever received by Mattel, its attorneys, or AHT. Mattel's attorneys did receive \*100 the Notice of Patent Expiration, PTO Form 441, and forwarded it to Mattel who dutifully sent it to AHT pursuant to Mattel's obligation to notify AHT of all matters relating to the Horse Race Analyzer. Thus, at the time of the transfer and until receiving the Notice of Patent Expiration, PTO Form 441, AHT had no notice or knowledge of the requirement to pay maintenance fees. Upon receipt of the Notice of Patent Expiration, AHT promptly sought the advice of patent counsel and petitioned for reinstatement of the 280 Patent.

The Commissioner denied this petition filed September 14, 1987 on behalf of AHT because, inter alia, petitioner failed to provide "an adequate, verified showing that the delay was unavoidable since reasonable care was taken to insure that the maintenance fee would be paid timely," i.e., that petitioner did not "[take] any steps to ensure timely payment of the maintenance fee." In other words, the petition was arbitrarily denied because AHT did not maintain a docket system. Further, citing 1046 O.G. 28, the Commissioner's decision stated that petitioner's unawareness of the requirement to pay maintenance fees, and failure to receive a communication from the PTO concerning the

payment of maintenance fees was "inadequate to establish unavoidable delay." In re Patent No. 4,382,280 (Comm'r. October 6, 1987) (unpublished).

This decision is of interest because ultimately AHT's unawareness of the requirement to pay maintenance fees rendered AHT's delay in payment, "unavoidable." See In re Patent No. 4,382,280 (Comm'r. September 2, 1988) (discussed *infra*).

Faced with a 'Catch-22,' AHT requested reconsideration by a second petition filed December 3, 1987. The Request for Reconsideration set forth the facts above, the relationship between Mattel and AHT, cited legislative history presented above, and asserted that the final rules at 1046 O.G. 28 were a nullity and that the failure to reinstate the patent was tantamount to taking petitioner's property without due process.

By a decision dated May 31, 1988, the Commissioner denied the Request for Reconsideration, stating that the delay was not unavoidable because there was no evidence that Mattel had agreed to take any steps to ensure timely payment of the maintenance fee; and, that the expiration of the patent was not a taking of patentee's property without due process because P.L. 96-517 provided constructive notice of the requirement to pay maintenance fees. In re Patent No.4,382,280 (Comm'r. May 31,1988)(unpublished).

This decision is interesting because in the Request for Reconsideration, the PTO was provided with Supreme Court law standing for the proposition that for the government to take property (e.g., by declaring \*101 a patent expired), due process requires actual notice or knowledge or adequate constructive notice of the taking and that notice by publication (or constructive notice) is inadequate when the names and addresses of parties having or having had an interest in the property (e.g., Mattel and its attorneys) were known. In re Patent No.4,382,280, Request for Reconsideration, at 12-13. See *Mullane v. Central Hanover Bank & Trust Co.*, 339 U.S. 306 (1950); U.S. Const. Amend V. See also *Fuentes v. Shevin*, 407 U.S. 67 (1972); *Bell v. Buson*, 402 U.S. 535 (1971); *Goldberg v. Kelly*, 397 U.S. 254 (1970); *Sniadach v. Family Finance Corp.*, 395 U.S. 337 (1969); *Walker v. City of Hutchinson*, 352 U.S. 112 (1956).

Moreover, not only was this decision contrary to the law of the Supreme Court, it was contrary to the spirit of the "Responsibilities of Practitioners Representing Clients in Proceedings Before the Patent and Trademark Office" which was published just three weeks after the May 31,1988 decision in In re Patent No. 4,382,280. See 1091 T.M.O.G. 6. According to the Responsibilities of Practitioners Representing Clients in Proceedings Before the Patent and Trademark Office, "[w]hile practitioner may no longer have a practitioner- client relationship with a client . . . [he] nevertheless has certain obligations . . . [i]nclud[ing] the obligation to inform clients or former clients [of the receipt] of notices regarding maintenance fees." 1091 T.M.O.G. 7.

That is, given the relationship between Mattel and AHT, it is respectfully submitted that it was not necessary to show that Mattel had agreed to take affirmative steps to ensure the payment of the maintenance fee for the 280 Patent, especially in view of the obligation of

Mattel's attorneys with respect thereto. See also In re Patent No. 4,382,280 (Comm'r. September 2,1988).

Undaunted, but having suffered the legal and PTO fees for two petitions, AHT brought suit against the Commissioner. This caused the Solicitor's Office of the PTO to be involved in the case; and, precipitated the "sua sponte" decision to reinstate the 280 Patent, In re Patent No.4,382,280 (Comm'r. September 2,1988)(unpublished, page 104, infra). The sua sponte decision provides:

The deed of grant of [the '280 Patent] states that the patent grant is "subject to the payment of issue fees as provided by law." Thus, the language in the deed of grant is not precisely that required by § 4 of Pub. L. 96-517. No other notice accompanied or was contained in the deed of grant reflecting the requirement of payment of fees other than issue fees.

Petitioner has asserted that he was not aware of the requirement to pay maintenance fees. Nor was petitioner represented by counsel registered to practice before the PTO. The patent . . . issued 3 May 1983. . . . Further, the deed of grant did not alert petitioner to the requirement to pay maintenance fees.

In re Patent No.4,382,280 (Comm'r. September 2,1988)(unpublished).

\*102 Thus, due to the draconian application of rules which are contrary to the intent of Congress and the caselaw under Section 133, it took two petitions and the initiation of a lawsuit over the course of almost one year for the PTO to recognize that the failure of the PTO to provide notice of the requirement to pay maintenance fees made the delay in payment "unavoidable."

While the September 2, 1988 decision in In re Patent No. 4,382,280 presents a change in the "unavoidable delay" standard under Section 41, given the decision's unpublished status, until now, it is respectfully submitted that there are other patent holders in fact situations similar to that of In re Patent No.4,382,280 and without the endurance of AHT, or without the benefit of AHT's decision, who have suffered the expiration of a patent due to the maintenance fee system and policy of the PTO.

Likewise, it is respectfully submitted that there are patent holders who were subjected to the ineffective "stickers" on the inside cover of the deed of letters patent and either failed to receive or failed to receive a proper Maintenance Fee Reminder, PTO Form 440, and are also suffering the expiration of a patent due to the maintenance fee system and policy of the PTO which, it is believed, include refusing to grant petitions under these fact patterns even in view of In re Patent No.4,382,280.

This suggests that the maintenance fee system and policy of the PTO are a problem facing the bar in dire need of overhauling.

The Problem Facing The Bar And Possible Solution

The problem facing the bar is that the PTO has failed to take responsibility in administering the maintenance fee system and has enacted rules which are contrary to Congress' intent in creating the system.

The obligation to pay a fee should not arise without notice that the fee is due. Placing the burden to notify patent holders upon the PTO is not only what Congress intended and proper with respect to the Supreme Court and Section 133 caselaw, but it also makes sense with respect to the practice of the patent bar. Under the current system, a practitioner or patent holder must maintain a docket system for approximately the first twelve years of a patent. Consider the practitioner who prosecutes hundreds of applications per year for say thirty years: such a docket system is unduly cumbersome and a cause for increased legal fees to clients. Furthermore, given the mortality of a practitioner versus the PTO's ability to exist beyond the life of any individual, it is also more rational that the government institution bear the responsibility of keeping track of when maintenance fees are due and appropriately notifying patent holders. Thus, by statute or caselaw, the PTO should be required to properly notify patent holders by mail that maintenance \*103 fees are due; and, the failure to do so should make any delay in payment "unavoidable."

In determining whether a delay in paying a maintenance fee is "unavoidable," it is respectfully submitted that the PTO be obligated to consider all factors, including the commercial success or importance of the patent in question, because Congress envisioned that "unavoidable" with respect to maintenance fees be an equitable standard and premised the maintenance fee system upon the patentee paying a fee to maintain the life of "effective" or commercially successful or important patents. The present policy of the PTO of rigidly applying its rules, including deciding petitions solely on the basis of whether the patent holder maintained a docket system, without regard to equitable considerations, is contrary to the caselaw and Congressional intent; this policy should be abolished.

In addition, it is submitted that since it is unlikely that the PTO will accept responsibility for administering the maintenance fee system (i.e., notifying patent holders) or fully consider all equitable factors in deciding petitions to accept delayed payments (i.e., without suit having been brought against the Commissioner), Section 41 of Title 35 should be amended to provide that the Commissioner accept unintentionally delayed maintenance fee payments, see, 1089 O.G. 55; and, that such an amendment provide not only prospective relief but also allow for the retroactive reinstatement of patents since numerous patentees have suffered under current PTO policy. Given that Section 41 already contains an intervening rights provision with respect to patents declared expired and thereafter reinstated upon the granting of a petition for acceptance of a delayed maintenance fee payment, 35 U.S.C. § 41(c)(2), providing retroactive relief will not take anything from the public domain.

Conclusion

The current maintenance fee system and policy of the PTO are contrary to the caselaw and Congressional intent. Reform is needed. The PTO must take responsibility for notifying patent holders that a maintenance fee payment is due; the "unavoidable delay" standard must be an equitable standard; and, the Commissioner should be authorized to accept "unintentionally delayed" maintenance fee payments, both prospectively and retroactively.

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\*104 In re Patent No. 4,382,280

Issue Date: 3 May 1983

Serial No. 221,487

Filed: 12/30/80

For: ELECTRONIC HORSE RACE ANALYZER

The above-identified patent is before the Commissioner, sua sponte, for further consideration.

Pub. L. 96-517, § 2, 94 Stat. 3017 (1980), effective December 12, 1980, introduced the requirement of maintenance fees into the patent statute. Section 4 of Pub. L. 96-517, 94 Stat. 3018, amended 35 U.S.C. § 154 by deleting the word "issue." Section 4 is a technical amendment necessitated by creation of the maintenance fee system. H.R. Rep. No. 1307, Part 1, 96th Cong., 2d Sess. 11, reprinted in, 1980 U.S. Code Cong. & Admin. News 6460, 6470.

The deed of grant of the above-identified patent states that the patent grant is "subject to the payment of issue fees as provided by law." Thus, the language in the deed of grant is not precisely that required by § 4 of Pub. L. 96-517. No other notice accompanied or was contained in the deed of grant reflecting the requirement of payment of fees other than issue fees.

Petitioner has asserted that he was not aware of the requirement to pay maintenance fees. Nor was petitioner represented by counsel registered to practice before the PTO. The patent for which petitioner did not pay the maintenance fee issued 3 May 1983, a point in time at which the requirement for the payment of maintenance fees in the United States had not become generally known, except to those who were familiar with patent practice and procedure. Further, the deed of grant did not alert petitioner to the requirement to pay maintenance fees. In addition, petitioner took prompt action to remedy the oversight as soon as petitioner became aware of it. Under the facts of this case, the delay in payment of the maintenance fee is held to be unavoidable.

The decision entered May 31, 1988 is hereby vacated and the petition filed December 3, 1987 is granted.

PTO records show that no request for refund of the maintenance fee and surcharge fee submitted by petitioner has been made.

\*105 Therefore, the maintenance fee and surcharge fee previously submitted is accepted. The above-identified patent will be reinstated in due course.

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