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PUBLIC HEARING ON THE STUDY OF INTERNATIONAL PATENT
PROTECTION FOR SMALL BUSINESSES

UNITED STATES PATENT and TRADEMARK OFFICE
600 Dulany Street, Alexandria, Virginia
October 27, 2011

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P R O C E E D I N G S

MS. REA: We have a very important topic to discuss today. It's a very important hearing on international protection for small business; and that study we're required to prepare by Congress in the America Invents Act along with the Small Business Administration.

Now, Director Kappos and the entire team has been working very diligently towards implementing the various provisions of the historic America Invents Act. And this ongoing dialogue with our user community is vital for us to do our job well; not only for us to remain transparent, but also we want to ensure that your input is actually considered and it actually will help guide us as we develop the new provisions and as we see how the new patent system will play out. So this is very timely, and the earlier we can receive your comments, the better.

We have six studies in total that are actually mandated by Congress. And so we are going to be soliciting your input constantly on each one of those. Today, though, the most important mission is the

1 International Patent Protection For Small Businesses.

2 And in an effort to accomplish this mission,
3 I'd especially like to thank at the far end Stu Graham,
4 Saurabh Vishnubhakat who will be appearing later, Susan
5 Hoffman, and to my right, David Chait, of the small
6 business administration for their support in hosting
7 today's hearing.

8 And, of course, we're grateful to those who
9 are offering their testimony today, Timothy King, Morgan
10 Reed, Alan Kasper, and Stanley Erck. We know we have at
11 least one other individual with us today that will
12 provide testimony afterwards. If those of you in the
13 room, anybody would like to provide any comments, please
14 do not hesitate to do so.

15 Now, embedded in the social contract between a
16 patent and society is a timeless acknowledgement that
17 the American marketplace rewards hard work, innovation
18 and creativity, but when we take a moment to examine the
19 way countries are doing business in the 21st Century,
20 it's no question that information and commerce are
21 cutting across global borders with increasing speed.
22 And as innovators seek to tap markets abroad, it is

1 imperative that the international patent system provide
2 a consistent cost effective way to obtain reliable
3 patent rights in multiple jurisdictions.

4 Now, without adequate education on the
5 importance of foreign IP protection or what tools are
6 available to enforce patents overseas, small businesses
7 in particular are often unable to defend their
8 inventions against foreign lawsuits. And that's why the
9 Small Business Administration, along with the USPTO, are
10 looking at this study. And it gives us a chance to
11 earnestly evaluate your business practices concerning
12 intellectual property rights overseas. And we would
13 like you to help us see how we can devise a system that
14 empowers manufacturers to more readily acquire
15 protections globally.

16 Now, by reflecting on our current work and
17 what we have so far, we have some great work sharing
18 models, including the Patent Cooperation Treaty and the
19 Patent Prosecution Highway. We can assess those
20 existing tools and decide how they can help us decide
21 how to move to the next level. But your testimony is
22 especially important on how to finance whatever programs

1 we devise and what we think is best.

2 So we want to know your general costs for
3 overseas filings, how they impact your bottom line, and
4 how it impacts your ability to develop new products.

5 So any qualitative and quantitative data that
6 you can provide us, as well as the Small Business
7 Administration, will help us determine whether grants,
8 subsidies, loan agreements, or new work sharing models
9 should be used. We want creativity and innovation in
10 developing a good scheme for advancing and leveling the
11 playing field for international patent protection.

12 Now, we know that two out of every three new
13 jobs in this country come from small and medium
14 businesses. So focusing on your business needs and
15 goals and assisting you in financing them is as much of
16 our job as it is with reviewing and granting patent
17 applications, and that we actually solicit your
18 creativity right now. We have until November 8th for
19 you to submit written comments. Our report is due to
20 Congress by mid-January.

21 We realize that this is a very, very short time
22 period and that it may be difficult for you to provide

1 your input, but any input that you have at this time,
2 even if you don't have the whole picture and you just
3 want to give us a segment of it, would be appreciated,
4 because we can put all of the pieces together, because
5 our job also has to be accomplished within a very short
6 period of time. So today's thoughtful discussion is
7 extremely important.

8 Now, I personally have to apologize. I cannot
9 stay here for today's entire program. I have a
10 conflicting engagement. And actually, it's another
11 conference aimed at discussing tools and resources for
12 the small business and independent inventor community in
13 Washington D.C. So I am still focusing on your needs,
14 but just a different venue.

15 But as we dive into the fundamentals and what
16 we want to get addressed today, we want to address
17 questions such as global IP protection matter for
18 today's small business, what can actually help you
19 better compete abroad, what are your past experiences.
20 So you can talk from the past to present or you can be
21 creative and innovate what is the best future playing
22 field for you to compete with every other size industry.

1 So, again, I encourage you not to hold
2 anything back. And I generally do look forward to your
3 incites today and in the days to come, and I'd like to
4 thank you.

5 Now I'd like to turn the podium over to David
6 Chait with the Small Business Administration. They are
7 our colleagues in developing this study and they are
8 very interested in what you have to say as well. David?

9 MR. CHAIT: Thank you so much. I want to
10 thank the USPTO for being a great partner in everything.
11 You have very strong advocates among them, and it's just
12 been a pleasure working with them.

13 First, I also want to take this opportunity to
14 thank all of you for coming out today. As was
15 mentioned, small businesses are a vital part of the
16 economy. They represent over 99 percent of all firms
17 and over 50 percent of the current workforce. They're
18 also the engine of growth in this economy having created
19 two out of every three new jobs over the past 15 years.

20 Now, SBA supports these businesses through a
21 mix of capital, contracting and counseling programs. In
22 fact, this past year was a record year in our loan

1 program portfolio where we supported over \$30 billion in
2 lending and touched over 60,000 small businesses.

3 Now, this was critical in filling market gaps,
4 especially for those Main Street firms. But the
5 entrepreneurs and high growth firms that many of you work for
6 and represent here today are different, and they are
7 critically important. Unlike Main Street businesses
8 where there's churn, a business opens, a business
9 closes, a business opens, high growth firms drive nearly all
10 of the net new drive job creation each year studies have
11 indicated.

12 As such we are here today with the critically
13 important task to discuss methods to support businesses
14 like yours. As a part of the America Invents Act, we're
15 identifying the best ways to support international
16 patent protection for small businesses. Such protection
17 is a vital safeguard to support innovation and
18 entrepreneurship and for growth and expansion. And it
19 will also help us reach the president's goal of doubling
20 exports by 2014 and supporting 2 million jobs.

21 As such, on behalf of Administrator Mills from
22 the SBA, I want to thank you all for being here today

1 and for sharing your thoughts on international patent
2 protection, specifically as we evaluate the gaps that
3 exist in the market and the potential need for loans or
4 grant programs to support and defray the cost of
5 international protection.

6 I look forward to hearing your invaluable
7 thoughts and ideas throughout the day. And I want you
8 to know that your voice is continuously heard and we
9 look forward to your thoughts. Thank you again.

10 MS. GONGOLA: Thank you, David.

11 Good afternoon, everyone. I'm Janet Gongola,
12 the patent reform coordinator. I want to welcome you to
13 the first of two hearings of the international patent
14 protection study. The second hearing is going to be
15 held next Tuesday, November 1st, at the University of
16 Southern California, Gould School of Law. And we are
17 very grateful to the administration and the staff at the
18 law school for making our West Coast forum possible.

19 Now, for those of you in this room today who
20 are at our East Coast forum, thank you so much for
21 attending.

22 As I have indicated so far throughout the

1 implementation process, and I will be repeating for
2 many, many months to come, your public input is
3 essential for the Agency to be able to develop a 21st
4 Century patent office.

5 We want our patent office to benefit small
6 businesses, large businesses, independent inventors, and
7 the entire IP system as a whole. Now, together under
8 the America Invents Act, we have the chance to redefine
9 the procedures by which an inventor secures patent
10 rights in the United States. And today in particular,
11 we have the chance to use the America Invents Act as a
12 platform to brainstorm different means for helping small
13 businesses secure similar patent protection abroad.

14 Special thanks today to those of you who
15 prescheduled your testimony; Mr. Tim King from IPG
16 Photonics Corporation, Mr. Stanley Erck from Novavax and
17 BIO, Mr. Alan Kasper from AIPLA, Mr. Morgan Reed from
18 the Association of Competitive Technology, and Mr. Steve
19 Caltrider from the ABA IP section.

20 We'd, likewise, welcome testimony from those
21 of you who did not preschedule. We will open the floor
22 to your views as well. Everyone is welcomed at our

1 hearing.

2 Now, Congress has mandated, as Deputy Director
3 Rea explained, the PTO to conduct six additional studies
4 under the Act in addition to the International Patent
5 Protection study. Those studies include the Prior User
6 Rights study, genetic testing, misconduct before the
7 office, satellite offices, virtual marketing, and
8 implementation of the America Invents Act. The PTO will
9 be following the same protocol for conducting those
10 studies as it is for the International Patent Protection
11 study.

12 First we will publish in the Federal Register
13 a notice of a hearing and request for public input.
14 Following receipt of your written comments and your
15 testimony at the hearings, the PTO will prepare our
16 reports for Congress. We will make all of the feedback
17 that you give to us along the way available for you to
18 access on our microsite. We'll likewise make our final
19 report available on our microsite so you can see exactly
20 what is happening in our studies and in our reports in
21 very transparent means.

22 Now I'm going to tell you a little bit more

1 detail about a couple of these studies to put in some
2 plugs here. The Prior User Rights study is running in
3 parallel with the International Patent Protection study.
4 We held the Prior User Rights hearing this past Tuesday,
5 and we were pleased to have five witnesses give
6 testimony, and about 60 people in our audience: 20 in
7 person, and close to 40 something through our virtual
8 audience on the microsite. A recording of
9 that hearing is presently on our microsite. So if you
10 have an interest, you can listen to what was said that day.

11 Now, the PTO soon will be turning to our
12 genetic testing study. We are planning to publish our
13 Federal Register Notice in January of 2012 and send our
14 report to Congress in June of 2012. And the remaining
15 studies in the list that I gave you aren't going to be
16 due until 2013 or thereafter.

17 Now I'd like to review the protocol that we
18 will be following for our hearing today. We will invite
19 each person who prescheduled testimony to come to the
20 podium and provide the testimony for our audience. On
21 the agenda, you will see that each witness has been
22 allotted approximately 15 minutes of time. We are not

1 pressed this afternoon. We want to hear from you. So
2 each witness should feel free to take as much time as
3 you'd like in giving your testimony.

4 After each person is finished, we would ask
5 that you stay momentarily at the podium so that we can
6 open the floor for questions, both from our PTO panel as
7 well as all of the audience members in general. If you
8 are a member of the audience and you would like to ask a
9 question or present some form of a commentary, please go
10 to the microphone in the center of the room, state your
11 name and the entity that you may represent.

12 Our hearing is being transcribed today, so we
13 want to make sure our transcriber is able to record
14 everything accurately.

15 With this overview, I'd like to introduce
16 Stu Graham, the Chief Economist for the PTO and a leader
17 of the prior user rights study. Stu is going to provide
18 more details about the scope of the study.

19 MR. GRAHAM: Thank you, Janet.

20 I am Stuart Graham. I'm the chief economist
21 of the USPTO, and my office has been given the primary
22 responsibility to lead this study, and I'm happy to be

1 here along with our colleagues from the SBA to take
2 testimony today.

3 In our request for information posted in the
4 Federal Register on October 7th and in this hearing
5 today and in Los Angeles on Tuesday, November 1st, we
6 are seeking comments and information on how to best
7 address the issue of international patent protections
8 for small businesses. And our federal program should be
9 established for that purpose.

10 Recent economic research supported by the
11 Ewing Marion Kauffman Foundation has shown that all net
12 job creation in the United States in the last several
13 years has occurred in companies less than five years
14 old. Still other evidence from research conducted in
15 California at the University of California system shows
16 that entrepreneurs in technology sectors from
17 biotechnology to medical devices to hardware and
18 software relying on patenting to win competitive
19 advantage in the marketplace and to attract capital so
20 they may grow and create jobs. But the academy has
21 offered scant evidence concerning the importance of
22 international patenting to young companies.

1 It makes sense to all of us that if the
2 entrepreneur in her kitchen with a good idea today is
3 going to grow into the Facebook of tomorrow that she
4 does better by preserving the options to grow into
5 global markets.

6 We know that we now live in an increasingly
7 global economy, and internationalization strategies from
8 exporting to franchising to FDI are an important pathway
9 to growth and to job creation, but we know too little
10 about the role played by effective international patenting
11 and enforcement in supporting such internationalization
12 strategies and the growth of the youngest most embryonic
13 companies.

14 We are therefore pleased to have an excellent
15 set of speakers today to help us learn more about the
16 issues facing young companies as regards international
17 patenting and to give us advice on whether and under
18 what circumstance a federal program to support such
19 patenting may help.

20 As stated previously, the legislation directs
21 the USPTO in collaboration with SBA to investigate and
22 report on at least two possible options. First, to

1 establish a revolving fund loan program and/or second a
2 grant program to small businesses to help defray the
3 cost of international patent applications, maintenance,
4 and enforcement, and related technical assistance.

5 Ideally, our report to Congress will include
6 at least the following information: First, what role
7 does international patent protection for patenting
8 play for small businesses? Is it a significant factor
9 in helping small businesses to internationalize and to
10 grow? And are there certain circumstances or certain
11 industries and sectors in which that protection is more
12 or less important?

13 Second, what federal programs already exist or
14 what may be created to help small businesses with
15 international patent protection? How can different
16 Federal agencies, whether the USPTO or the SBA or other
17 agencies, enable small business entrepreneurs
18 who are seeking help to actually get it?

19 And third, what role does the cost of
20 international patent protection play in small
21 businesses' ability and willingness to take advantage of
22 that potential? Are there particular reasons why small

1 businesses need a different kind of program to enable
2 them to do what is in their best interest? And what are
3 the circumstances in which a revolving fund or a loan
4 program would be appropriate? Is one approach or even
5 some different approach clearly better for accomplishing
6 the goals of supporting the internationalization and growth
7 of small entities?

8 These three issues are the basis for the set
9 of questions specified in the Federal Register Notice,
10 and we encourage those here today and anyone listening
11 through our live stream to consider responding and
12 offering information about these acts. Please address written
comments to

13 SMEpatenting@USPTO.gov, again, that is SMEpatenting, all
14 one word -- at USPTO dot gov.

15 In the meantime, let us turn the program over
16 to live comments from several members of the public and
17 representatives of organizations who have expressed an
18 interest in these issues and a willingness to give
19 testimony. To guide that process, I turn the agenda
20 back to my colleague, Janet Gongola.

21 MS. GONGOLA: Thank you, Stu.

22 Our first witness is Mr. Timothy King. He

1 will be testifying virtually through the telephone
2 system. So while I give the introduction, we can key
3 him up.

4 Mr. King manages Global IP Portfolio of IPG
5 Photonics, which is a developer and manufacturer of
6 optical fiber-based lasers.

7 Prior to joining IPG, Mr. King was assistant
8 general counsel for intellectual property at Entegris
9 and Mykrolis. He has over ten years of experience in
10 corporate in-house IP management.

11 Mr. King take it away.

12 Perhaps Mr. King will be joining us a little
13 later. So we will move on to our live testimony in our
14 east forum with Mr. Morgan Reed. Mr. Reed is the
15 executive director of the Association for Competitive
16 Technology. Prior to joining ACT, Mr. Reed was the
17 senior legislative advisor at the Venable Law firm.

18 Mr. Reed, I turn it over to you.

19 MR. REED: This is a very large podium. I
20 feel more like the captain of a ship here.

21 So this is a room of patent lawyers and patent
22 experts and experts on the minutia of the law, and in

1 the case of Stuart, an expert data cruncher.

2 But today what I wanted to talk about instead
3 is to help kind of put a face on what we're talking
4 about when it comes to internationalization of patents
5 and how it impacts small businesses.

6 A brief history: The Association for
7 Competitive Technology, which is my organization,
8 represents about 4,000 software -- software and
9 technical companies from around the world. The vast
10 majority of them are here in the United States. We have
11 it as an abiding mission to be pro intellectual
12 property. We spent a lot of time walking around this
13 country and around the world sitting down with small
14 businesses to say, you know, how are you creating a road
15 map for your IP within your company? How are you
16 treating IP as an asset?

17 So while I wouldn't quite say we are IP
18 maximalists, we are believers in the intellectual
19 property system as a method to create value for small
20 companies. We think it's particularly notable that a
21 lot of times this truly innovative disruptive technology
22 that we create and that we protect through IP gives us

1 an enormous lever against the large companies that have
2 vast resources to operate that we don't.

3 And so I think that we need to set the stage
4 to remember why do small business like IP? What is the
5 value? Well, I can be tiny, but I can walk into a
6 meeting with Oracle and say, hey, pay attention to me.
7 I can be tiny and I can walk into a courtroom and say,
8 this was my idea first, and somebody will listen. And
9 if you've ever met with small inventors, you know that
10 one of the things that they really, really want you to
11 do is listen to them, and the patent that intellectual
12 property gives them the megaphone to be heard.

13 So when it comes to internationalization of
14 patents, let's look at a couple -- I'm going to bring
15 some case studies rather than strict numbers. One of
16 our member companies, a company called Traffax is based
17 in Maryland. It has some patents created by some
18 professors at the University of Maryland campus who were
19 thinking about traffic. And as all of you travel here,
20 on any kind of rainy day in Washington D.C. know,
21 traffic is a nightmare in the Nation's Capital, capital
22 "N" nightmare.

1 What they realized is that the vast majority
2 of us carry with our car keys now a device that has blue
3 tooth on it. Well, if we watch the cars, and we don't
4 actually listen to what is happening but we see that
5 blue tooth identifier as it goes by, we know how many
6 cars are going by. Not only that, we know how fast they
7 are moving, and we do it in real-time and we don't have
8 to depend on cameras.

9 Now, an enormous amount of technological work
10 went into piggybacking on the blue tooth system in your
11 car to figure out how to listen to it, how to create it,
12 and they had this great idea; we can use existing
13 infrastructure to help manage traffic.

14 So they spun out a company called Traffax.
15 They got support from the University. They got some
16 venture funding. They hired really competent people,
17 like one of our friends, Peter Karnes, and they set to
18 work making their product.

19 Now, you'd think, Washington D.C., national
20 audience, we should have these systems everywhere. But
21 you know where their first customers came from? Abroad.
22 Because guess what? Singapore has traffic problems.

1 Sweden has traffic problems. Around the world people
2 have traffic problems, and they also have blue tooth.
3 And, yet, this is a company that would not have been
4 able to get off the ground, would it not have been able to
5 solve or help solve commuting problems without the value
6 of intellectual property.

7 Now, because of Peter and because of their
8 willingness to put some money into it, they spent money
9 that would have been part of their mortgage or would
10 have bought presents for their kids to get translation
11 services, to get their patent covered in multiple
12 nations.

13 Never forget the hard choice the small
14 business has to make when it goes to an AIPLA lawyer.
15 They are making a decision at that time to borrow more
16 money from their mom, to not make a mortgage payment.

17 So when we talk about what are the
18 considerations small businesses have to make before they
19 go to an excellent counsel from AIPLA, those are the
20 things they have to do.

21 Now, Traffax was successful because they knew
22 about the value of IP. They spent the money. They got

1 the translations, and they're now successful and they're
2 able to make sure that they're protected overseas.
3 Where plenty of large companies would like to, you know,
4 let's do the same thing, great idea, let's take it for
5 free, Traffax can say, huh-uh, not so fast, how about a
6 license. So Traffax is a success story.

7 So I don't take up too much of Dana's time,
8 I'll talk about another one that's not so successful.
9 Another one of our members -- I won't use their name
10 because it's kind of embarrassing -- was an imaging
11 company. They made scanners; very, very, very high end
12 scanners, fancy scanners, with lots of patented
13 technology and software in it. But the owner had met
14 with counsel and they said, you know, it's really costly
15 to get translation services overseas and there's --
16 going through the PCT and doing all that work, you know
17 what, let's just take care of the patent here in United
18 States, and that's what they did -- oh, they got one in
19 Australia.

20 But they didn't get one in Germany. Lo and
21 behold, the big conference in Germany comes around, and
22 our small inventor, who had formerly been an employee at

1 Kodak, who had real stake in this game, knew what he was
2 doing in the technological side, was setting up his
3 booth, selling his scanners. Two booths down was a
4 German company, a well-funded successful German company
5 and they were demoing his same core technology. We're
6 talking about \$10,000 a pop scanners.

7 And the part that killed him was the fact that
8 the guy at the German booth was saying, hey, we are
9 using their technology, go over there and he can explain
10 the technology to you, but it's here in our one that has
11 this large company backing, and by the way, we are
12 already part of your existing service agreements, and
13 feel free to come back and learn from him and then come
14 over here and buy ours.

15 Well, he went to his U.S. based patent
16 attorney and said, what can I do? And the attorney had
17 to tell him the truth, which was, unless they import
18 them here, it's probably not worth your trouble.

19 The part that's really debilitating for this
20 small businessman is not that what he did -- that he
21 wanted to drive this large company out of business or he
22 wanted to brutalize them, as he said when he testified

1 before Congress on this issue; he said, I just wanted
2 them to take a license. I would love for them to be
3 selling my technology and give me a little on the back
4 end.

5 So when we look at the success of Traffax, who
6 protected on the front end, who spent the money, who had
7 the IP intelligence to approach it in that direction,
8 they were successful. And my friend at the unnamed
9 imaging company, chose not to spend that money. But
10 remember the choices that he was making were about
11 maxing out his credit card, borrowing money from mom,
12 facing off against a very opaque and difficult wall of
13 uncertainty when it comes to internationalization.

14 Now, we haven't talked about China, which is a
15 separate rabbit hole. But for those of us who exist in
16 the U.S., EU, the Japan system, you should never
17 underestimate the cost and the confusion that
18 internationalizing your patent creates for a small
19 businessman who I guarantee you is strapped for cash.

20 So this isn't a plea for more money, but it is
21 a plea to make sure that as the researchers produced, as
22 the reports are produced, that that perspective that

1 every penny that he's spending to internationalize his
2 patent is a penny he's not spending on his credit card,
3 is not buying something at the store, is not hiring
4 another technology expert; instead, he's spending it
5 overseas on patent internationalization. It is not a
6 bad thing. It is a costly thing.

7 And I think the goal of this research and the
8 goal of this effort needs to be to see what the United
9 States can do to benefit small inventors here to make
10 sure that we understand the cost, we mitigate that cost
11 wherever possible, and that we streamline the system, so
12 as near as we can, we make every dollar that that small
13 businessman is spending on internationalizing his patent
14 count.

15 I'll turn it over to the next person.

16 MS. GONGOLA: Thank you, Mr. Reed. Does the
17 panel have any questions?

18 If you wouldn't mind just staying at the
19 podium and captaining that ship a little longer, I'll
20 turn it over to Stu for the first question.

21 MR. GRAHAM: Thank you, Mr. Reed, that was
22 very, very informative.

1 I believe that your organization has some
2 expertise or knowledge about the implications of
3 translation cost. If you could share that information
4 with us, I think that will be very, very useful for the
5 record.

6 MR. REED: I will make it a part of the
7 record. I wanted to get the story part out in front.

8 So ACT has spent quite a bit of time in Europe
9 and has been part of the work within the European Union
10 to help calculate what the translation costs are. We
11 had a study done out of two U.K. universities that has
12 been well received by the EU, and we have provided
13 considerable testimony directly to the Commission on
14 these issues, and we'll be happy to make it part of the
15 record for your efforts as well. And that is and has
16 been one of the biggest problems that we have seen in
17 Europe for patent harmonization, is the translation
18 cost.

19 It's funny how lopsided it gets. Our members
20 who are European based say -- and these are folks who
21 speak five or seven languages -- that the cost of the
22 lawyer is actually less than the cost of the translation

1 in certain cases. So what you would think, the highly
2 trained, really valuable patent lawyer guy that says,
3 that's going to cost me a fortune, but when I add up my
4 translation cost, that actually flips the equation, I am
5 spending more to get the translation than I am on the
6 attorney. So in our studies in the EU, we find that
7 that is an enormous battle.

8 With China, again translation costs are far
9 out stripping the cost of attorneys. There are other
10 questions about whether or not I'm actually properly
11 protected in China. But within the questions of, I'm
12 going to move to get a patent in China, a lot of the
13 questions are around, are they translating it right.
14 And so few people here in the United States have an
15 expertise in that area, that in that case one of the
16 biggest concerns is you're depending on a third party to
17 accurately represent what your invention is. That's
18 very difficult and very hard to know.

19 MR. GONGOLA: Other questions from the panel
20 for Mr. Reed? David?

21 MR. CHAIT: Thank you, again, Mr. Reed, for
22 your testimony.

1 A lot of the issues that you laid out relay to
2 the choice that a small business has to make of the
3 higher cost versus the protection. But on some of the
4 areas relating to those higher costs, could you speak to
5 the availability of credit or capital for small
6 businesses that you've seen if they make that decision?

7 MR. REED: Right. And it's been a very
8 difficult and trying thing. And I work with Dr. Winslow
9 Sargeant, Counsel for Advocacy, and we've done several
10 roundtables where we focused on the question of access
11 to capital.

12 The reality of the banking crisis and the
13 credit crunch that will happen is that businesses
14 change. A very good friend of mine runs a now
15 successful wide commentator base start-up. He is not
16 seeking D.C. money anymore, in part because he doesn't
17 want to lower -- dilute his portion and cause him
18 problems. But he has realized that through utilization
19 of card services and others, he's just becoming more
20 efficient.

21 So the reality is lack of capital is a huge
22 problem, but what's happening is small businesses and

1 entrepreneurship, we're just being scrappy. We are
2 finding ways to do it with less. And so we love
3 cheap ready capital -- you know, we like what the Fed is
4 giving to the big banks, you know, if that could be
5 arranged, low cost money, but if we're not going to get
6 that, then you have to understand that the dollars that
7 we are spending out of our own pockets are even more
8 dear.

9 So access capital, huge problem, but it hasn't
10 killed entrepreneurship. We are just finding new ways
11 to skin -- you know, to deal with the problem. So if
12 you want to give us more, we'll take it.

13 MR. COLARULLI: I have two questions that I'm curious
14 about. One goes to the issue that's presented in the
15 legislation. Do you have a view on whether a loan
16 program or a grant program would be more beneficial? I
17 think your answer will be whatever way works to get the money,
18 but I'll let you answer it.

19 MR. REED: Although there's a really
20 interesting story about SBA, SBA loans -- and not to
21 pick on the SBA, but we recently had 50 entrepreneurs
22 come to Washington D.C. to meet with members of

1 Congress. One of them was a gentleman named Chris
2 Einhorn. Chris told a very personal and very real story
3 about his effort to get SBA back funding.

4 Chris is based in Austin, Texas, and has a
5 technology company and had some really great ideas,
6 patentable ideas. Chris went to his bank and said, I'd
7 like to get an SBA loan. They said, oh, gosh, we don't
8 know how to price IP as an asset. He went to the next
9 bank. Gosh, great idea, Chris, we have no idea, even on
10 a 90/10 ratio, which is, you know, 90 percent backed by
11 SBA and 10 percent backed by the bank. The bank goes, I
12 don't know how to price it, I don't know what it is
13 worth. Next bank -- 12 banks, 12 said, Chris, this is a
14 great idea, we have no idea how to price it and we can't
15 give you any money.

16 What was even more discouraging for Chris is
17 the message that he heard from one of the banks who
18 said, Chris, if this were a loan for a gas station, I
19 would have written you a check today, but I have no
20 idea -- I can give loans for gas stations. I don't know
21 how to give money under SBA for intellectual property,
22 for innovation.

1 And so when we talk about how to get more
2 money, grant or loan or anything, the first hurdle we
3 need to get over is -- and, again, working with SBA, I
4 know they're trying -- but the reality of an SBA backed
5 loan for a technology idea is very hard, even in a 90/10
6 ratio, for the bank to understand how to price it.

7 And the final aspect of that is something we
8 all know in Washington, which is risk, which is what the
9 business that my people are in. I mean, they're in the
10 business of risk. They're tiny. They may go bankrupt.
11 They may fail. Risk is a reality for our folks. Risk
12 is something that is poison to the government.

13 So it's very difficult, and we will have to
14 work very hard to defend SBA for taking risky
15 propositions, because if they loan out money for
16 innovation and innovation continues its normal rate of
17 failure, which is by the way, 80 percent -- remember if
18 you're a venture capital fund in the valley, you're
19 going to be seen as brilliant if you've got two out of
20 every ten companies that make it big and eight that go
21 bankrupt. Hopefully, they'll go bankrupt with some IPs
22 so you can churn it, put it into a new company and

1 express the idea in a new way. But you're okay if you
2 lose seven out of ten.

3 So we're going to have to work very hard to
4 make sure that the SBA is set up with a system that
5 allows them to fail a majority of the time, because my
6 people, we're going to fail a majority of the time. But
7 the rest of the time, we're going to come up with great
8 stuff that blows you away and changes your world.

9 And that's -- we need the money to be able to
10 do that. We need the IP protection to make it
11 exportable. And we need the faith that, hey, I might
12 not got it right this time, but let me have a chance for
13 the next.

14 MR. COLARULLI: It's an important reminder
15 that we're going to rely on this study, and
16 something we've talked about here, which is all of the
17 things that your company -- the smaller companies are
18 facing, also face the larger companies, they just affect
19 the smaller companies more.

20 MR. REED: That's right. That's exactly
21 right.

22 MR. COLARULLI: So let me ask you one

1 additional question, again, kind of going to the issues
2 that Representative Gary Peters from Michigan, who
3 submitted this as an amendment about the foreign bill,
4 had raised and something that's invoked in the language.
5 This is in terms of timing. So given limited funds,
6 whether it's a loan program or a grant program or if
7 there are funds available, when are those funds most
8 important? In the front end, filing, or what the
9 legislation also envisions as maintenance?
10 When is it more important?

11 MR. REED: I think it's unquestionable that
12 it's front end, because if I'm going to be successful,
13 somebody is going to give me money for maintenance.

14 Now, there is -- I need to put a caveat on
15 that - some ideas take a long time to fully reach
16 expression, and there are biotech and others. But for
17 folks that are in the -- let's call it the cutting edge
18 of innovation technology -- it may not be true in green
19 tech, it may not be true in biotech, where you may have
20 a really long approval process from government
21 regulatory agencies. Maintenance funds may come in very
22 handy.

1 For our folks, it's the front end, because I'm
2 either going to make it or I'm not. In five years, the
3 money, nice, but the number of struggling
4 just-getting-by companies, it's not that many. I'd much
5 rather take my IP, see if I can bundle it up, find a new
6 company, get a new start, funds, support, or move on. I
7 might even get a job.

8 But outside of that, it really is one of those
9 things, that our folks need it on the front end and they
10 need it to bolster that question of, where do I spend my
11 precious capital.

12 MR. COLARULLI: Thank you.

13 MR. REED: Anything from the floor?

14 MS. GONGOLA: We have one more question from
15 the panel.

16 MR. TRAMPOSCH: I'm just wondering if there
17 are other things besides the money and the financing
18 that the USPTO can do to help the companies that you
19 work with in filing patent applications. For example
20 providing tools to reduce the cost such as
21 PCT and PPH.

22 MR. REED: I think you all know -- well, first

1 of all, how about hiring an army of translators? I
2 mean, the irony is I joke, but we all know that China is
3 likely to meet, what, about 9,000 patent examiners by
4 2015? And they are, in fact, subsidizing the
5 translation of Chinese patents for examination here in
6 the United States. So our competitors are, in fact,
7 subsidizing translation costs for U.S. patents.

8 So since translation represents a pretty high
9 barrier -- I mean, let's walk back for a second and
10 remember how we get to this place. I've got an idea. I
11 take my idea and figure out the methodology of how it's
12 actually going to be expressed. I figure out if it's a
13 physical thing. I figure out how it's going to actually
14 exist. If it's software, I need to write up how all the
15 parts of it are.

16 Then I go to a patent attorney that takes my
17 idea and says, you haven't thought broad enough, you
18 need to make it bigger to the point where I hardly
19 recognize my original patent, but it's still there,
20 which is great. Now, I have to take this thing and I
21 have to expand it around the world. So by the point
22 where I'm looking, I'm already out of pocket, let's say,

1 30 grand.

2 Let's say I'm 30 grand out-of-pocket to IP
3 attorneys and other costs associated with just my
4 initial application for a patent. So 30 grand? That's
5 half of an FTE in most places in America, a full-time
6 employee. So I've already taken away half of an
7 engineer to pay for this. This means something.

8 So by that point in time, I'm in 30 grand -- and
9 I've got to say, how much more can I spend? So is it 30
10 grand and then 30 grand and then 30 grand for every
11 language and every country that I need to go to? Is it
12 60 grand and 60 grand? Now I'm starting to actually cut
13 into my core business. Half of an FTE, I've got to do
14 it. That's how I'm going to stay in business. But now
15 you're starting to talk about flipping my entire company
16 over.

17 So that becomes the point. So, on the question
18 on what the USPTO can do, obviously access to capital,
19 grants, loans are important, especially ones that are
20 directed to helping me make a decision about that cost.

21 So if it's a grant that's done for the
22 purposes of helping me to internationalize my patent, I

1 don't have to think about did I take this out of my
2 engineering bucket. I didn't. Why? Because that money
3 wasn't available for engineering. It was available for
4 this purpose, which is to help me internationalize and
5 export my idea. So if it's in that bucket, I didn't
6 have to make that choice.

7 So that's the point where it needs to be, and
8 that's how we have to think about it in terms of what
9 the money comes. And hire a bunch of translators.

10 MR. TRAMPOSCH: Just to let you know, we
11 are starting to look at a project on machine
12 translation. We are primarily thinking about it in terms of
13 translating prior art, but we'll start
14 thinking about it in terms of providing a tool for
15 start-up applications as well.

16 MR. REED: That will be great.

17 MS. GONGOLA: Do we have any questions or
18 commentary from the audience?

19 Sir, please go up to the speaker and state
20 your name and any affiliations that you have for the purpose of
21 transcribing the hearing.

22 MR. BAHN: My name is Patrick Bahn. I am with

1 TGV Rockets, and I have a fair degree of experience with
2 SBA loans.

3 You may want to mention -- for the panel's
4 benefit, the SBA on loans usually has actually three
5 major problems, not just valuation of what you're doing,
6 but also the credit worthiness of your company and
7 restrictions on the income in which they can loan
8 against. They are more than willing to loan you a
9 million dollars if you have a government contract in
10 hand, but if you have some sort of flaky R and D
11 contract from a class A or a class B company, the SBA
12 lending facilities are like, unless you can personally
13 guarantee that loan, which all of a sudden essentially
14 makes that loan valueless.

15 So there's actually a lot harder problems than
16 just the SBA evaluating IP. And I'm sensitive to the IP
17 problem. I'm sitting on 13 million of IP that I
18 can't --

19 MR. REED: Well, to address this, he's exactly
20 right. That's why I said, risk is poison to the
21 government. He did a great job of articulating some of
22 those examples. But that's that umbrella. I mean, the

1 SBA folks have to protect themselves. And it forces the
2 example that he said of a one-to-one -- I have to back
3 my loan one-to-one. Well, what's the point of getting a
4 loan at that point?

5 So I don't expect it to be an easy problem,
6 but finding a way to make risk on loans less dangerous,
7 less -- and I say "dangerous" because you're going to
8 fail, but making the punishment for failure not a
9 congressional hearing where somebody is, you know, put
10 in stocks and written up Pennsylvania Avenue to be
11 mocked up by the crowds. In Washington, you know,
12 that's a fate worse than death.

13 So his point is exactly right. It's how do we
14 help the SBA deal with their risk aversion.

15 MS. GONGOLA: Other comments or questions from
16 the audience?

17 Thank you very much, Mr. Reed, we really
18 appreciate your testimony.

19 We're going to connect now with Mr. King, who
20 I do believe is joining us on the telephone.

21 Mr. King, can you hear me?

22 MR. KING: Yes, can you hear me?

1 MS. GONGOLA: Yes, Mr. King. I have already
2 made your introduction. And I know you're pressed for
3 time this afternoon, so I'll turn it over to you.

4 MR. KING: First I'd like to thank the U.S.
5 Patent Trademark, for providing me with the opportunity to
6 comment on the proposals that targeted
7 international filings by small business. Actually, I
8 appreciated hearing Mr. Reed's perspective because the
9 proposal that I'm going to make is going to provide
10 something I think all business owners need in order to
11 make a good decision, and that is time.

12 Specifically, I'm proposing amendments to the
13 Paris Convention that will provide small business a much
14 greater period of time to analyze and file their
15 international applications and actually result in more
16 robust applications, and none of these changes require
17 any tax revenue

18 So I thought it would help to give a little
19 background on where I'm coming from. I've worked with
20 individual inventors, small companies, and mid-size
21 companies for almost 20 years. And securing foreign
22 patents rights has always been a substantial portion of

1 my practice. And the technologies for which I sought
2 protection are pretty broad. They may include
3 technologies that are commercialized by pharmaceutical
4 companies, pharmaceutical and biotechnologies supply
5 chain innovators, innovators in the semiconductor, and
6 semiconductor tool supply chain, steel manufacturers,
7 and now fiber laser manufacturers, a technology that's
8 in the industrial, medical, and defense supply chains.

9 With respect to the last seven years, a
10 substantial part of my practice has also included
11 licensing, enforcing international patents, as well as
12 challenging third-party patents. So my comments are
13 based on a pragmatic approach to international patent
14 filing. How does any perspective patentee cost
15 effectively protect its innovations overseas such as
16 those international patent assets provide value over and
17 above their cost? That's a calculus that all
18 perspective patentees engage in, but it's one that's
19 obviously much more critical for the small business
20 inventor because they're not in the position to make as
21 many bets.

22 So as to the practicalities of enforcement,

1 please understand that most of these foreign
2 jurisdictions have a much higher rate invalidating
3 patents in post-grant contentious matters than that
4 which happens in the U.S.

5 So from a statistical basis, you actually --
6 in order to best protect your commercialization of your
7 inventions, you actually need more patents overseas than in
8 the U.S. to adequately protect your inventions. But, of
9 course, this need to foreign file conflicts with cost,
10 market accepted data, and data regarding third-party
11 patent protection status.

12 So currently a typical inventor has a year.
13 Under the Paris Convention, you get a 12-month period
14 from the filing of the U.S. patent application to
15 protect your rights in other jurisdictions.

16 As I'm sure Mr. Reed's constituents would
17 agree, that current priority term, 12 months, is not
18 enough time for most applicants, particularly those with
19 scarce resources to analyze the strength of their
20 invention with respect to the marketplace or to
21 understand what prior filed patent applications exist.

22 So another point you have to consider about

1 the burden of small business is that in current patent
2 practices it's typical that the inventor will file a
3 number of provisional patent applications directed to
4 the same invention. I mean, invention is not a static
5 event. It involves continuous improvement. There's
6 usually the nugget or the good idea of the -- but then
7 as Thomas Edison said, then there's the 99 percent
8 perspiration that you need to put into in order to make
9 a robust patent, robust invention.

10 So in that one-year period, the small business
11 or any perspective patentee is incurring attorney's fees
12 for the preparation of these one or more provisional
13 patent applications that have to be submitted at that
14 12-month deadline.

15 So in addition, because of that short period
16 of time in which the perspective patentee has between
17 paying its attorneys and patent offices and committing
18 to foreign filing and those substantial fees, basically
19 they have less than -- well less than a year to put
20 together all the money associated with the filings. So,
21 again, not just the U.S., but both filings.

22 So what I would propose is if the prior term

1 was extended to 24 months from the current 12, it would
2 allow the inventor, number one, to spread out its
3 financial obligation over a much longer period of time.
4 And, again, talking to the point about
5 capital, it would provide the inventor
6 a much more longer period of time in which to
7 raise the capital associated with these foreign filings.

8 In addition, that time period -- again,
9 depending on the marketplace, that would allow the
10 inventor to potentially prove the commercial benefits of
11 the invention in the marketplace. And so it would be
12 the instance where instead of walking to the bank with
13 no information about commercialization, you know, in
14 some circumstances, in some industries, that perspective
15 patentee could have market data to justify some of the
16 cost that he would seek to raise capital for.

17 Another point here that is very important is
18 the quality of international filings. Under the current
19 system, the perspective patentee doesn't have the
20 opportunity to fully see the prior art because you have
21 to file your international application at 12 months. It
22 won't publish until, depending on the location, up to 18

1 months. And so you have to commit all of these funds,
2 and then six months later you have
3 a better chance of understanding, you know, how does
4 your patent stand or your intellectual property filing
5 stand with respect to others.

6 I mean, as anyone in the industry knows, you
7 know, smart people are all over the place and lots of
8 people are trying to solve the same problems, and so the
9 result is that many people end up filing very similar
10 inventions. And so, you know, if one has an
11 understanding of where they are in line with respect to
12 their competitors, that's a very good -- again, it's
13 another indicia of the potential of commercial success
14 that they can walk to any loan officer with. For
15 example, if there are a thousand applications that are
16 filed in a particular subject matter, they would know
17 that and they could walk to the bank - they could walk
18 to the bank with that data, and so that data would
19 support the fact that their particular invention is, A,
20 very important, and B, if they're first in line, they're
21 more likely to benefit on the IP side.

22 Another point -- again, this is not just a

1 U.S. issue. If publication occurred well before the
2 foreign filing deadline, it would allow all perspective
3 patentees, not just the U.S., but abroad as well, the
4 ability to set the value of their invention in view of
5 the prior art as well as the view of competitive
6 filings.

7 With the change of the U.S. law to a first to
8 file system, then one could truly ascertain with much
9 more certainty who the first inventor is on a global
10 basis. I raise this point because I think this would
11 actually make it seem more likely that the signatories
12 to the Paris Convention would find the amendment that
13 I'm suggesting palatable.

14 So in summary, my specific proposal is that
15 the U.S. Government seek amendment of the
16 Paris Convention so the term in which one can enjoy a
17 priority right in a patent filing is extended to 24
18 months from its current 12 months and that access to
19 such 24-month priority term be granted only on filings
20 that are published within 18 months of the filing of the
21 first priority document of international filing.

22 Thank you very much. Are there any questions?

1 MS. GONGOLA: Thank you, Mr. King. Questions
2 from our PTO panel? Stuart, please.

3 MR. GRAHAM: Hello, Mr. King. Thank you for
4 joining us virtually. I enjoyed your comments very
5 much.

6 I have two questions: One goes to -- one goes
7 to the point that you made about the uncertainty in the
8 process and the time that it takes for small entities to
9 amass the kind of capital necessary to engage in the
10 necessary international patent protection that you
11 described.

12 How in your mind would the proposed grant or
13 loan program work in that regard? And if either of them
14 would work, what would be the appropriate
15 measures by which entities would be evaluated as to whether
they should be able to access such programs - what measure would be appropriate?
16 ?

17 MR. KING: Well, I think, again, you know, the
18 world has changed a great deal, and I think using the
19 publicly available patent databases, one could present a
20 fairly comprehensive picture of what prior art is out
21 there, what other people are doing, to any potential
22 loan officer. Now, again, I think -- I think you will

1 probably have to create some matrix as to the -- you
2 know, or provide some sort of expertise, maybe in the
3 form of, you know, some -- an attorney to provide
4 opinion as to where this person is in line with respect
5 to other people. That's an expense. And maybe that's
6 something where this loan program could probably come in
7 handy, where you're giving the banks some testimony
8 based on people's expertise in a particular market, and
9 with the legal system, that this particular invention
10 has, at least in terms of its viability or validity, has
11 a good chance.

12 MR. GRAHAM: Very good. Thank you.

13 My second follow-up question -- for the
14 transcriber, let me just identify myself as Stuart
15 Graham.

16 For the second question, let me just say, you
17 mentioned that because of the differences in practice
18 overseas, that it's oftentimes necessary, because of the
19 probabilities to seek more patents because the
20 likelihood of patents being either not granted or
21 invalidated as high, particularly in the short run and
22 the early running. Do you have a rule of thumb as to

1 compare it to a U.S. filing, how many foreign filings
2 are necessary?

3 MR. KING: Well, on a statistical basis --
4 again, these are based on my knowledge of my past
5 practice in Korea and Japan. And the validity of
6 patents are held valid in about 33 percent of cases in
7 those jurisdictions, plus or minus 3 or 4 percent.
8 That's about half of what I understand the current
9 statistics are of the U.S. patents. And so
10 statistically you would appear to need at least two
11 patents for every single U.S. filing in order to have
12 the equivalent statistical chance of success.

13 MR. GRAHAM: Thank you.

14 MS. GONGOLA: Anymore questions from the
15 panel?

16 MR. TRAMPOSCH: Thank you very much, Mr. King.
17 I'm Albert Tramposch. I'm heading up international
18 affairs here at the USPTO, and, of course, I was
19 interested in your proposal about the priority period
20 under the Paris Convention.

21 You may already be aware that there is some
22 precedent for this. When the Paris Convention

1 was adopted in 1883, the priority period for patents was
2 six months, along with for trademarks and designs. And
3 when the Paris Convention was revised in the 1920s, that
4 priority period was extended to 12 months for exactly the kinds
of
5 reasons that you've explained to us today. So there
6 really is some precedent for extending that period.

7 The question I have for you is whether you or
8 those that you've been affiliated with have used the
9 Patent Cooperation Treaty with some effectOne
10 of the intentions of the Patent Cooperation Treaty is to
11 extend to around 30 months the need to do things like
12 pay examination fees and to pay translation costs, which
13 we've already heard could be quite expensive. And if
14 the PCT is not effective in helping that, we at the
15 office would like to know. Thank you.

16 MR. KING: My 20 years of practice has
17 included substantial use of PCT practice. My going
18 national immediately is the rare exception. And I can
19 count on, you know, one hand the number of times where
20 I've gone direct national rather than using the PCT
21 system. So I think qualitatively it's done a very good
22 job to facilitate the winnowing out of cases that are

1 weaker than others. But I think the critical limitation
2 with respect to the PCT system in general is that you
3 have to file 12 months before you have all the
4 information that you garner from the PCT process.

5 And so if you have information available to
6 you at the time of foreign filing or entering the
7 process, you will be able to make much better business
8 decisions about those patents that you would proceed
9 with.

10 MR. ALBERT: Great. Thank you.

11 MS. GONGOLA: Any questions from the panel?
12 Saurabh?

13 MR. VISHNUBHAKAT: Thank you, Janet.

14 Thank you, Mr. King, for your comments today.
15 I just wanted to follow up with you about the statistics
16 you mentioned to Stu's earlier question regarding 33
17 percent, plus or minus 3 or 4 percent, of patents being
18 held valid, and how that's considerably less than the
19 United States. I assume you're referring to patents
20 that are litigated or somehow the subject of the
21 dispute.

22 Certainly in the United States, we understand

1 that most patents -- the vast number of patents granted,
2 very few are actually litigated. They are the high
3 value ones. But I'm wondering if you can speak a little
4 bit about how you would adjust that
5 statistics for the patents that are not
6 litigated, how many of those are held valid or
7 understood to be valid.

8 MR. KING: Well, one negotiates a license in
9 view of the perception of value that one particular
10 patent will have in the patent office. And so when you
11 speak of patents that aren't litigated and their value,
12 business people will typically view them at the same
13 rate as patents that are litigated would be held valid.
14 I mean, there are some patents that are weaker than
15 others. But all patents aren't perfect and all patents
16 are subject to some degree of challenge.

17 So all things being equal, your success rate
18 of litigating typically influences substantially whether
19 someone is going to take a license or whether they're
20 going to just thumb their nose at you and wait for you
21 to sue them.

22 MR. VISHNUBHAKAT: Thank you.

1 MS. GONGOLA: Questions from audience or any
2 commentary?

3 Well, thank you, again, Mr. King.

4 We will move on to our next testifying witness
5 in person, Mr. Alan Kasper. Mr. Kasper is the director
6 of Sughrue International Department and a former
7 president of the American Intellectual Property Law
8 Association. Prior to joining Sughrue, Mr. Kasper
9 served as an attorney and later as the chief patent
10 counsel for Communications Satellite Corporation. Mr.
11 Kasper was also an examiner at the Patent and Trademark
12 Office.

13 Mr. Kasper?

14 MR. KASPER: Many years ago.

15 MS. GONGOLA: The ship is now yours.

16 MR. KASPER: Thank you. My name is Alan
17 Kasper, and I am a partner in the Washington D.C. based
18 patent law firm Sughrue PLLC, and I'm also past
19 president of the American Intellectual Property Law
20 Association.

21 I am pleased to have the opportunity to
22 present the views of AIPLA with respect to the subject

1 of international patent protection for small businesses
2 for purposes of the United States Patent and Trademark
3 Office, preparing a report on the subject as required by
4 the America Invents Act.

5 AIPLA is a U.S. based National Bar Association
6 whose approximately 16,000 members are primarily lawyers
7 in corporate practice, in government service, and in the
8 academic community. AIPLA represents a diverse spectrum
9 of individuals, companies, and institutions involved
10 directly and indirectly in the practice of patent,
11 trademark, copyright, unfair competition, and trade
12 secret law, as well as other fields of law affecting
13 intellectual property.

14 Our members practice or are otherwise involved
15 in patent law and other intellectual property law in the
16 United States and in jurisdictions throughout the world.
17 AIPLA has long recognized the need of small business
18 entities who have or plan to have the sales of products
19 and services outside of the United States to obtain
20 patent protection under innovations and countries other
21 than the United States.

22 AIPLA is supported through its communities and

1 programs, the education of small business entities, and
2 their patent attorneys, patent agents or in-house staff
3 with regard to the need for, availability of, and
4 procedures for obtaining patent rights abroad.

5 AIPLA continues to have a strong interest in
6 the establishment of appropriate policies, programs, and
7 mechanisms for enabling small entities to secure patent
8 rights abroad in an efficient and cost effective manner.

9 The first question in the notice is how
10 important is international patent protection to small
11 businesses. The response to this question may be
12 divided into two groups. It appears that each group
13 would have a different interpretation of the question.

14 The first subjective interpretation may be
15 restated, how do small businesses view the importance of
16 international patents. The second, a more objective one
17 as, how important is international patent protection for
18 small businesses.

19 As to the first subjective group, how do small
20 businesses view the importance of international patents,
21 the answer is less positive. Some small businesses do
22 not value international patents because obtaining

1 patents is too expensive, enforcing patents is too
2 difficult. Small businesses are focused on the primary
3 market, United States, and small businesses lack the
4 ability to project their marketing internationally.

5 As to the second more objective group, how
6 important is international protection for small
7 businesses. The answer is more positive. Any business
8 with a web Site is marketing its inventions
9 internationally. Investors who want to grow, merge, or
10 sell a business will value international protection
11 because it allows the business to grow beyond the U.S.
12 market. Overseas markets, especially in developing
13 countries where standards of living are increasing
14 dramatically are becoming important markets for some
15 products. Any small business that exports devices or
16 processes covered by U.S. patents or that manufacture
17 such devices abroad for importation in the United States
18 needs international patent protection.

19 The second question in the notice asks, at
20 what point, if ever, in the growth of small companies
21 does international patent protection become important?
22 The question also may be addressed from two different

1 perspectives, one focused on when the typical business
2 owner is interested in international patents, and the
3 other focused on when small businesses should be
4 interested in international patents.

5 The two perspectives converge with the
6 recognition that many small businesses do not realize
7 that they need international patent protection until
8 it's too late to apply.

9 As to the first perspective, the issue raised
10 is what is a typical small business owner interested --
11 when is a typical small business owner interested in
12 international patents. The answer is, when their
13 markets start reaching out of the country into other
14 patent respecting jurisdictions. Growth occurs slowly
15 in many small businesses. International patents are
16 expensive, and small businesses have other priorities
17 for their money. They may not realize that
18 international patents are important until it's too late.

19 In addition, using patents to protect their
20 growing markets, small businesses want to get
21 international patents at early stages to attract
22 investors.

1 With respect to the second perspective, the
2 issue raised is when should the small business owner be
3 interested in international patents. The answer again
4 is variable. International patent protection may be
5 critical in the first few years of establishment. For
6 startup, high tech businesses, because technology
7 advances rapidly, international patent protection is
8 important from the start of the company. Also, since
9 many universities license their U.S. patents to small
10 businesses, the small business should be mindful of the
11 advantages of extending protection internationally,
12 possibly at their own cost.

13 The third question asks what challenges, if
14 any, interfere with the growth and competitiveness of
15 small companies if international patent protection is
16 not sought early in the innovation process. Again,
17 there are several answers, each raising a significant
18 challenge.

19 First, in the absence of international patent
20 protection there will be reduced long-term royalty
21 revenue and the inability to prevent manufacture and
22 sale in other parts of the world. Second, without

1 adequate protection, there will be reduced opportunities
2 to obtain capital from would be investors. The first
3 act of an investor is to perform due diligence on the
4 company. If international patent protection has been
5 neglected or is insufficient, the likelihood of an
6 investment going forward is reduced, and accordingly the
7 valuation of the company is also reduced.

8 Third, in the absence of protection there is a
9 reduced market position for small companies with regard
10 to larger companies who can exploit the market by
11 copying the small businesses' products very easily.

12 Finally, there may be a reduced scope of
13 benefits. Patent applications filed later in the
14 development process protect only improvements. If
15 patent protection is not sought for the basic
16 development early on, whether a product or a method,
17 there may be no way to effectively protect against
18 copying and increased competition.

19 Question four asks what specific role does
20 international patent protection play in the successful
21 internationalization strategy, such as franchising,
22 exporting, or foreign direct investment of small

1 businesses; does this role differ by industry or sector?

2 AIPLA believes that foreign patent protection
3 is critical to successful internationalization
4 strategies. The key obstacle for U.S. companies
5 entering foreign markets is local companies competing
6 with the patented product by offering their own
7 infringing designs. While in some countries it is
8 difficult to enforce patent rights against those
9 companies, without patent protection, however, it may be
10 impossible to compete. For example, international
11 patent protection is critical for any small business
12 that develops a new drug or a medical device since there
13 may be no other acceptable alternatives. In the
14 wireless and I.T. sector, if a small business does not
15 have patents in as many countries as possible, it may be
16 very difficult to obtain local investment.

17 The fifth question asks, how can the USPTO and
18 other federal agencies best support small businesses
19 regarding international patents with regard to
20 acquisition, maintenance, and enforcement?

21 With regard to acquisition of international
22 patent rights, AIPLA notes that translation costs and

1 annuity payments represents significant expenses and
2 acts as a barrier preventing small businesses from
3 applying for foreign patents. The USPTO and Federal
4 Government could work with foreign governments to delay
5 the requirement for submitting the translation,
6 especially in countries with deferred examination. They
7 also could reduce annuity payments.

8 In addition, AIPLA believes that there can be
9 an increased emphasis on work sharing by which a patent
10 application dully examined by a high quality confident
11 examining authority would be granted and respected by
12 other offices. AIPLA encourages the USPTO to work with
13 international patent organizations to reduce the amount
14 of time and effort needed to examine the patent
15 application.

16 There also can be increased U.S. subsidies to
17 WIPO to reduce the cost of filing the PCT application or
18 WIPO could adopt a fee structure that favors small
19 enterprises. Along the same line other countries could
20 be encouraged to provide fee structures that are
21 favorable to small entities.

22 In another area, USPTO and other federal

1 agencies can do a much better job educating small
2 businesses about the importance of international patents
3 and strategies for effectively pursuing international
4 protection. They could create a mentoring program to
5 help small businesses deal with various rules in
6 different countries. Such programs would be consistent
7 with the pro bono initiatives established under the
8 recently enacted America Invents Act.

9 Please note that AIPLA is committed to assist
10 the USPTO in its effort under the AIA to work with IP
11 associations to establish pro bono programs to assist
12 small businesses and independent inventors seeking
13 patent protection worldwide.

14 Finally, the USPTO could expend the patent
15 document exchange program to more countries making it
16 easier to perfect Paris Convention priority claims.

17 Now, with regard to maintenance of
18 international patent rights, the largest expense
19 involves government fees and vendor service charges.
20 Maintenance fees and annuities in many foreign countries
21 are out of line with the value of the patents and
22 pending applications. The Federal Government could

1 negotiate treaties with other countries to reduce
2 annuity fees for small entities, particularly during the
3 pendency of applications before they are granted.
4 Should the Federal Government consider subsidizing these
5 fees for small companies, even if limited to those
6 entities that have well developed business plans and
7 need international patent protection, AIPLA would be
8 concerned that funding for office operations not be
9 adversely affected.

10 The start-up business that has found the money
11 to remain in business for five to ten years when most
12 maintenance expenses are first due should use its own
13 money to maintain its patent rights. AIPLA does not
14 believe that there is a role for the USPTO or other
15 federal agencies in such activity.

16 Lastly, with regard to the enforcement of
17 patent rights on an international scale, and given the
18 need for broad agreement on common principles, AIPLA
19 believes that the United States Government could
20 negotiate new treaties or more effectively enforce
21 existing treaties to prevent infringement of patent
22 rights.

1 Consistent with the previous recommendations
2 on mentoring and pro bono activity, AIPLA would
3 encourage the USPTO to create a task force,
4 international patent law specialist, to help small
5 entities. Such program could be on a voluntary basis.
6 And expenses for administration of this task force can
7 be paid for by minimal fees from the participating small
8 entities.

9 AIPLA also believes an initiative could be
10 undertaken to create an easier use of customs
11 enforcement mechanisms that may be used by small
12 businesses to at least temporarily impound infringing
13 imported products. Currently, it is much more difficult
14 to enforce patent rights through customs than copyright
15 or trademarks.

16 Question six asks what role should the Federal
17 Government play in assisting small businesses to defray
18 the cost of filing, maintaining, and enforcing
19 international patent protection.

20 As an overarching principle, AIPLA does not
21 believe that the Federal Government should become
22 involved with subsidizing the filing, maintaining, and

1 enforcing of patents abroad. These are private sector
2 issues that are best addressed by businesses whether
3 large or small. Nonetheless, it may be useful to study
4 the benefit of tax breaks for international patent work
5 and profits made through licensing abroad as an
6 incentive to bring money back into the United States.

7 In a similar vein, the Federal Government may
8 consider strategies to encourage sales abroad, for
9 example, by allowing patent costs to be expensed rather
10 than capitalizing them. The USPTO also could consider
11 policies that would result in the examination of U.S.
12 patent applications found by small enterprises more
13 quickly so that the strength of the invention is known
14 at an early stage and a determination may be made as to
15 where international patents should be obtained.
16 Accelerated examination under the recently implemented
17 track one is not favorable for small businesses because
18 of the high fee, even when reduced by one-half for small
19 entities.

20 In addition by taking examiners away from the
21 normal patent prosecution track, it further delays the
22 issuance of patents for those who are unable to afford

1 the track one examination.

2 Finally, AIPLA believes that the Federal
3 Government could work more effectively under existing
4 treaties and negotiate new treaties to obtain better
5 enforcement of patent rights in other countries,
6 especially China, and even to have international
7 agreements on the importance of and advantages that
8 should be given to small entities.

9 Question seven states, in order to help small
10 businesses pay for the cost of filing, maintaining, and
11 enforcing international patent applications, how
12 effective would it be to establish a revolving fund loan
13 program to make loans to small businesses to defray the
14 cost of such applications, maintenance, and enforcement,
15 and related technical assistance.

16 In the absence of concrete details of a
17 proposed loan program, AIPLA assumes that such program
18 would need to require a guaranty of repayment to the
19 Federal Government so that the program would not come at
20 the expense of the public or users of the patent system.

21 AIPLA believes that all available funds from
22 users of the patent system in the United States should

1 be applied to improving the U.S. system. Once aversion
2 of such funds ends and the necessary resources and
3 infrastructure for a world class patent system are
4 available, other uses of excess funds can be considered.

5 On a relative basis, obtaining a U.S. patent
6 in the U.S. and abroad on key innovations takes capital
7 that may be needed to develop and roll out a successful
8 product. The small business itself or its investors who
9 are best able to assess the risks of any given situation
10 must make informed and intelligent decisions as to how
11 their resources are invested in the like of an
12 appropriate strategy for marketing their products and
13 services internationally.

14 AIPLA believes that the venture capital system
15 in the United States is proven to work very effectively
16 in ensuring that some business decisions are made by
17 small enterprises.

18 Question eight has a similar theme when it
19 asks in order to help small businesses to pay for the
20 costs of filing, maintaining, and enforcing
21 international patent applications, how effective would
22 it be to establish a grant program to defray the cost of

1 filing applications, paying maintenance fees, and
2 conducting enforcement to provide related technical
3 assistance.

4 The answers to this question is largely the
5 same as to question seven. AIPLA is concerned with
6 achieving the most effective and efficient operation of
7 the Office. Should a grant program be considered,
8 grants should not adversely affect that basic goal.

9 Question nine asks if the Federal Government
10 is limited to providing either a revolving fund loan
11 program or a grant program described above but not both,
12 which of these options would be more effective in
13 accomplishing the outcome of helping small businesses
14 pay for the cost of filing, maintaining, and enforcing
15 international patent applications.

16 Either a loan or a grant program has the
17 danger of adding to waste, fraud, and corruption, which
18 many see as endemic in government programs. While AIPLA
19 is not an expert in the area of business economics and
20 finance, it would appear obvious that small businesses
21 do not need more debt. Grants, tax deductions, or
22 immediate depreciation would be a preferred way to help

1 out at the front end of the process in order to help out
2 eventually at the back end.

3 In any event, AIPLA suggests that a loan may
4 be preferable to a grant, perhaps a commercial bank loan
5 with a federal agency guaranty or some portion of the
6 loan, i.e. similar to the SBA 7A or 504 loan guaranty
7 programs. Keeping it simple, in working in the private
8 sector with local commercial banks in the lead is
9 preferable.

10 Intuitively, it would seem preferable that
11 small businesses need to have significant skin in the
12 game, perhaps as much as 50 to 80 percent of the project
13 cost needed to be funded by the small business. This is
14 because of a high technology risk associated with the
15 early stage patenting cost. Commercial banks do not
16 typically invest at this early stage, thus most of the
17 cost needs to be borne by the small business and its
18 investors.

19 Finally question ten concludes the inquiry and
20 asks, are there circumstances under which the Federal
21 Government should not consider establishing any of these
22 programs.

1 With all due respect on a global basis,
2 governments are notoriously bad at picking winners where
3 business start-ups are concerned. However, should a
4 government program be established, common sense would
5 dictate that the small business should have a concrete
6 business plan for manufacturing, selling or licensing
7 products in other countries that is supported by market
8 research. Further, such programs should not be applied to
9 non-practicing entities with the possible exception of
10 universities.

11 That concludes my comments. And thank you for
12 allowing me the opportunity to give them today.

13 MS. GONGOLA: Thank you, Mr. Kasper.
14 Questions from our panel? We'll start with Stu.

15 MR. GRAHAM: Thank you, Mr. Kasper. Very
16 enlightening. I enjoyed the comments very much.

17 I have two questions. The first goes to some
18 comments that I heard you making toward the beginning of
19 your statement and then followed up at the end about the
20 relationship of international patent protection to other
21 compliments, the way that we think about them as
22 economists, those assets in marketing and distribution

1 that the company may build over time.

2 Is it enough that we try to create an
3 opportunity for these entities to have patent
4 protection, which, of course, just buys them an
5 option -- ultimately buys them an option to go into the
6 foreign country so long as they can bring the other things like
marketing and distribution along

7 with them? Is it enough, and if not, how do we think as
8 a government of many agencies about helping the
9 companies not only to preserve that intellectual
10 property option but also to build the other things that
11 are necessary to ultimately export and grow, et cetera?

12 MR. KASPER: Thank you for that question.
13 That's a great question.

14 I think the answer really lies in a much
15 broader mentoring program. And if you think about what
16 the government has to offer, it is, of course, a
17 resource with many experts, but also it has access to
18 private experts that in, at least the United States, are
19 very willing to commit their time and energy to help for
20 the good of the country as AIPLA has proposed.

21 I think reaching out beyond just the bar into
22 the core of economists that are available worldwide and

1 maybe even having that culture or that focus developed
2 on a global basis help small entities would enable those
3 resources to be brought together and provide access to
4 them. And certainly as we grow through the Internet and
5 electronic communications, there is no reason that
6 experts worldwide can't be available for that purpose.

7 MR. GRAHAM: Just a second follow-up question
8 on your proposals as regards taxation. I think we
9 have a lot of history and support for the notion that
10 appropriate taxation policies can act as significant
11 supports for economic activity. It does, indeed, seem
12 like that's something worthy of study, to
13 think about a proposal that would change the treatment
14 of expenses associated with patenting.

15 I suppose one of the issues I was thinking
16 about is that under a regime that
17 allows for the deduction of ordinary and necessary
18 expenses is only
19 allowable against income. And oftentimes income is
20 something that these young companies don't have.

21 So to the extent that this is a positive
22 attribute, could some of these other mechanisms, grants

1 or loans, be used to support those companies that are
2 just too embryonic and too new to be able to take
3 advantage of the tax code for international patenting?

4 MR. KASPER: Well, the real core question is
5 who is going to pay for it? And as you may have
6 gathered from my remarks, a fundamental principle that
7 AIPLA advocates is that the fees paid by users that go
8 to the office should stay in the office at least until
9 the office has the capabilities and efficiencies that
10 the leadership wants to have and that the users need.
11 That's the primary goal.

12 Once you have that, if there are indeed excess
13 funds, then you can think about other ways to expand the
14 system to bring in others who perhaps cannot afford it.
15 So we are certainly not saying, no way would those be
16 possible; it's just let's have a priority.

17 MS. GONGOLA: Other questions or comments from
18 the panel? Dana.

19 MR. COLARULLI: Let me just make one quick
20 remark. I thank you for your testimony, I appreciate
21 it. You actually gave us good ideas of other
22 things that are complimentary, which we appreciate, to

1 this type of study, particularly the pro bono program, to
2 the extent of what we're doing.

3 I'll make one clarification. I
4 particularly appreciate the track one accelerated examination.
One
5 of the things that the legislation gives us
6 when we set our fees is the ability to actually implement the
7 new micro entity fees. So that should hopefully help
8 this a little bit. But, again, a good reminder that
9 we're talking about resources for small business. Small
10 businesses don't have the resources to offset
11 those. So I think that's one clarification I wanted to
12 make.

13 The other additional thing to say about
14 accelerated exam is that hopefully by introducing this
15 program, it helps us speed up exam for all applications.
16 And as you said, I think you really can't quantify the
17 benefit there for all users of the system in terms of
18 certainty, and in terms of having a system that works.

19 I just wanted to comment on that, and thank
20 you again for your testimony, and really some of your
21 good ideas on very short notice for pulling together
22 testimony.

1 MS. GONGOLA: Any questions or comments from
2 the audience at this point?

3 Thank you, Mr. Kasper.

4 Let's take about a ten-minute break. We will
5 resume in ten minutes with two more witnesses.

6 (Brief recess held.)

7 MS. GONGOLA: We'll resume our hearing on
8 international patent protection for small businesses.

9 Our next witness is Mr. Stanley Erck.

10 Mr. Erck has more than 25 years of experience
11 in the biotechnology and health care industries. He
12 served previously as President and Chief Executive
13 Officer of Iomai Corporation. He is representing
14 Novavax and the Biotechnology Industry Association
15 today. Mr. Erck?

16 MR. ERCK: Thank you very much. First of all,
17 I'm not a patent attorney so you can't ask me hard
18 questions. Okay? I'm a biotech executive. I have been
19 managing biotech companies for the past 30 years. And
20 now I'm with Novavax. I'm testifying on behalf of BIO
21 and I will read some prepared remarks and try to bring
22 up a couple of anecdotes about experiences that have

1 affected one or more of the companies that I'm with.

2 I'm on the board of directors of three biotech
3 companies, two of them public. And one of them had a
4 board meeting yesterday that had a very relevant
5 discussion that I'll talk to you about at the end.

6 We'll start with that. Regarding Novavax
7 we're a biotech company developing new vaccines that may
8 be used to treat -- to prevent a broad range of
9 infectious diseases, including seasonal flu, avian flu,
10 something called RSV, Respiratory Syncytial Virus,
11 rabies, and a variety of others. For those of you who
12 have seen the movie Contagion -- did anybody see
13 Contagion?

14 So Novavax's lead vaccine program is to
15 develop a vaccine that will prevent precisely the type
16 of virus that was a feature in the movie. So that's
17 what we are working on. We just got \$179 million HHS
18 grant to work on that very program. So we're six months
19 into the program, and we'll start human clinical trial
20 on that vaccine next year.

21 We are local. We are in Rockville, Maryland
22 and employ about 120 people. Novavax, like many of the

1 companies in the biotech industry, live and die based on
2 basically two features. One is the data that we get
3 from the human clinical trials that we execute in
4 testing our drugs, and that's critical, both safety and
5 efficacy data from those trials; but number two is
6 intellectual property. We can't succeed without both.
7 One or the other is insufficient.

8 So the Biotech Industry Organization or BIO is
9 a nonprofit organization with a membership of more than
10 1100 bio companies, academic institutions, state biotech
11 centers, and related organizations in all 50 states and
12 a number of foreign countries. BIO's members are
13 involved in the research and development of health care,
14 agricultural, industrial, environmental biotechnology
15 products. U.S. life sciences industry, fueled by the
16 strength of the U.S. patent system, supports more than 7
17 million jobs in the United States and has generated
18 hundreds of drug products, medical diagnostic tests,
19 biotech crops, and other environmentally beneficial
20 products, such as renewable fuels.

21 The majority of BIO's members are small
22 companies, like my company, Novavax, that currently do

1 not have products on the market. As such, BIO's members
2 rely heavily on the strength and the scope of their
3 patents, both domestically and internationally, to
4 generate the investment necessary to sustain their long
5 product development cycle. On average, it takes more
6 than ten years to develop the biotech invention from its
7 inception to regulatory approval and market launch. The
8 average fully capitalized cost to developing a biologic
9 medicine has been estimated at over \$1.2 billion per
10 drug.

11 Interestingly, I was at a cocktail party the
12 other night where Human Genome Science, a local company
13 that I think most people in this area have heard
14 about -- I was talking with a representative from HGS.
15 They started in 1992, raised \$2 billion, and just this
16 year got their first drug approved. So this is an
17 investment heavy industry.

18 For BIO's small companies, pursuing
19 international patent protection occurs early in the
20 company's life cycle. All biotech companies understand
21 that the products they hope to develop require robust
22 patent protection abroad. This is because when a small

1 biotech company seek assets through capital to sustain
2 their existence a central factor for their valuation is
3 the strength of their IP portfolio. In fact,
4 empirically, we know that U.S. biotech companies are a
5 large export of IP.

6 United States is by a wide margin the largest
7 originator of international biotech patents in all major
8 markets. Small biotech companies hold approximately 80
9 percent of the development pipeline for new medicines,
10 diagnostics, and other bio based products.

11 As products advance through development, small
12 biotech companies often need larger partners to develop
13 their experimental products to a market ready approvable
14 stage. In each case, such partnering depends on robust
15 patent rights that will secure all partners a return on
16 investment.

17 Small biotechs often bear the initial burden
18 of procuring international patent protection since
19 patent rights must typically be sought early and near
20 simultaneously in the U.S. and in foreign jurisdictions.
21 This enables a small company to partner with larger
22 companies later in the product life cycle in order to

1 export their products internationally. It is not an
2 option for a small biotech company to wait to secure
3 foreign patent protection until after such partnerships
4 as possible forfeiture of patent rights is too great a
5 risk.

6 It is imperative that small biotech companies
7 plan ahead, even at their inception, to ensure that over
8 the ensuing 10 to 15 years they have the opportunity to
9 partner with larger companies to export their
10 products internationally.

11 What then are the challenges small biotech
12 companies face when filing for patents internationally?
13 First and foremost, international patent procurement is
14 expensive. Foreign biotech patent prosecutions are both
15 complicated and subject to greater non-uniformity of the
16 law when it is in many other -- many other technologies.

17 Patent claims scope, and what is permitted can
18 differ significantly from country to country which
19 complicates and increases the cost of international
20 patent filing for biotech inventions. Without
21 procedural or substantive harmonization, these problems
22 are likely to increase costs for small biotech

1 companies.

2 In addition to filing and prosecution costs,
3 uncertainty limits the ability of small biotech
4 companies to limit patenting cost. Small biotech
5 companies must patent early in their development life
6 while simultaneously trying to predict which patents
7 will be valuable in ten years and which patents will
8 not. As such, biotech companies deal with slowly
9 developing technology that does not allow them to decide
10 to abandon or maintain a family of applications before
11 the real prosecution costs kick in.

12 For example, a biotech company who files a
13 U.S. patent application today and a PCT application one
14 year from now has only 30 months to decide whether to
15 abandon the application if it wants to avoid the cost of
16 entering the national stage in a number of foreign
17 countries.

18 30 months may be enough in some other
19 industries, but in biotech it's too soon for an informed
20 decision. Including translation costs, the aggregate
21 expense of entering the national stage in Japan, Korea,
22 Europe, Australia and the NAFTA countries can easily

1 exceed \$100,000; if the BRIC countries are added, cost
2 can double. Attorney fees, once prosecution begins, add
3 another layer of cost.

4 Many such costs must be incurred before a
5 biotech company is able to decide whether to maintain or
6 abandon the application. We have small member companies
7 with 30 or 40 employees who are many years away from the
8 market who must every year reserve for patent
9 prosecution several hundred thousand of their sorely
10 needed dollars.

11 I looked up Novavax' patent cost just for
12 foreign filing fees. This is a company that has 80 or
13 90 or 100 people over the last four or five years. We
14 paid \$1.3 million for our patents and foreign filing
15 fees, and if you include all of the costs associated
16 with that, it goes into the many millions of dollars.
17 So it's an important part of our spending cycle.

18 So uniformly, such companies would prefer to
19 spend, including Novavax, spend their money to advance
20 their science. This USPTO study and other initiatives
21 like that has the opportunity to provide solutions that
22 will save small biotech companies significant money,

1 money that could be spent on research, researching
2 life-saving products, hiring technicians, engineers,
3 scientists, and accelerating the pace of biotech
4 technology innovation.

5 We are aware of grant or loan programs in
6 various foreign countries aimed at helping small
7 businesses defray costs for both domestic and
8 international applications. China is one such example
9 where administrative finance in 2009 started subsidizing
10 patent filings for foreign patent applications made by
11 small and medium sized domestic enterprises and probably
12 scientific research institutions.

13 WIPO's small and medium size enterprises
14 program, White paper, on what's called Managing Patent
15 Costs, reports that in an increasing number of
16 countries, governments and other funding agencies that
17 provide grants or subsidies for R and D innovation
18 activities to research institutes, universities, and
19 enterprises have begun to allow a portion of the funds
20 to be utilized for meeting patenting cost.

21 For our small businesses, securing IP
22 protection is just as important as obtaining laboratory

1 equipment, leasing space, or hiring creative dedicated
2 employees. And because IP business assets are at least
3 as important as other more tangible business assets,
4 there is no reason to exempt patent rights from publicly
5 funded small business assisted programs that are
6 available for more tangible assets, such as capital;
7 equipment, hiring, or leasing space.

8 Extending the range of public assistance
9 programs for patent rights for small businesses would
10 help small biotechs spend money normally allocated to
11 patent filing and prosecution elsewhere.

12 The particular mechanism for helping small
13 businesses file patent applications internationally
14 requires additional thought, and BIO's members have no
15 final view on the matter. Generally, it would seem
16 important that any program, in order to be effective,
17 would have to be adequately funded so as to make
18 a meaningful difference to a beneficiary business.

19 Financial assistance could be in the form of
20 grant, refundable tax credit, or matching program.
21 Recognizing that most small biotech companies do not
22 have tax liability, such mechanisms would have to be

1 structured in a way to make them just as useable as for
2 tax paying companies.

3 A matching program where, for example, every
4 \$2 of the company's money would be matched by \$8 of
5 grant funding has the advantage of providing assistance
6 while keeping the small biotechs' skin in the game,
7 thereby ensuring that the company would still have to
8 make careful business decisions where they file
9 internationally. Further thought on these mechanisms
10 and how they would affect small biotech companies is
11 necessary.

12 So on behalf of BIO, I'd like to thank the
13 USPTO for the opportunity to testify. BIO hopes that
14 the USPTO finds a way to defray the hundreds of
15 thousands of dollars it costs small biotech companies to
16 file and prosecute patents internationally so the small
17 companies can spend more money on research, job
18 creation, and product commercialization for the benefit
19 of American workers, patients, farmers, and consumers.
20 That's the end of the prepared speech.

21 But I was at a board meeting, sitting at a
22 board meeting yesterday of a company down in North

1 Carolina, biotech company, with about 70 or 80 people
2 that have been in business for ten plus years. We were
3 discussing one of our programs, where we had gotten
4 clinical data on an important drug in their pipeline,
5 and the data were great. So we're anxious. We're
6 through phase one and into phase two now in this process
7 of phases one, two, and three.

8 We were talking about partnering the program
9 with a large foreign company. So the usual questions go
10 on, who are the likely partners in that. And then
11 someone raised the question, what does the IP look like?
12 We said, it looks great, we filed, we think we are
13 clearly earlier than everybody else, we filed the
14 patents five years ago, and in the U.S., Europe, Japan,
15 and a couple of other countries things are good. But we
16 didn't file in China, India, and countries like that
17 five years ago. Why not?

18 Well, five years ago the company had run into
19 cash flow problems and were trying to squeak out their
20 existence, and the decision was made, are we going to
21 spend -- they named a number, 50 or \$100,000 -- to file
22 in BRIC countries or not. And they made the decision

1 not to file in China and India, which now going forward
2 with a drug that is going to be maybe in the market in
3 the next three or four years, it will influence their
4 ability to partner and it directly affects the value.

5 It's just interesting that knowing this was
6 coming up today, that that very question came up
7 yesterday in the conference. So real life example.

8 MS. GONGOLA: Thank you, Mr. Erck, for both
9 the prepared and the anecdotal on-the-fly testimony
10 as well.

11 Question from Stuart.

12 MR. GRAHAM: Thank you. My question actually
13 dovetails on your anecdote that you just provided. I'm
14 very interested obviously -- you know, if we want the
15 biotech company of today to be the Genentech
16 tomorrow, we have to be concerned about the way
17 in which not only the entrepreneurial capital flows to
18 the company, but also the ability of that company
19 ultimately to have a successful exit event, whether that
20 be an acquisition or to go into an IPO.

21 I'm wondering from your own experience in the
22 industry, what role does the effective portfolio,

1 international portfolio of patents play when investors
2 or possible acquirers or the markets themselves, are
3 ultimately looking at the full assets that that company
4 has?

5 MR. ERCK: We're all incredibly capital
6 intensive. My job as CEO is largely to raise money to
7 support the hundreds of millions of dollars it requires
8 to run these companies for a few years. The ability to
9 do that or the ability to do it at a lower cost of
10 capital is directly proportional to the two things I
11 mentioned, the value, the perceived value of the
12 clinical data that we get in human trials, or for that
13 matter animal trials; and number two, the perceived
14 value of the patent portfolio, and it's no longer just
15 the U.S. U.S., of course, is important, as is Europe
16 and others, but that whole international -- and you will
17 attract or not attract investors based on the strength
18 of the intellectual property portfolio.

19 They'll gauge you on whether they think you
20 can get a partnership with one of the large foreign
21 companies to commercialize in most countries, and that's
22 based in part on the data and in part on the patent. So

1 it's directly relevant.

2 MS. GONGOLA: Questions from Saurabh.

3 MR. VISHNUBHAKAT: Thank you, Janet.

4 Thank you, Mr. Erck. Your testimony regarding
5 this capital intensive industry is very important to our
6 questions.

7 You spoke kind of on two threads, about
8 obtaining the costs -- the rising costs of foreign
9 protection through procedural and substantive
10 harmonization, as well as expressing support for grants
11 and programs to defray the cost. I was wondering
12 given the capital intensive nature of the biotech
13 industry, if you could provide a sense for us in the
14 short run which of the two would provide greater
15 returns.

16 MR. ERCK: That's a tough question to pick
17 between the two, because harmonization and defraying of
18 out of pocket, in your term, costs are both important,
19 and they are obviously related, because in
20 harmonization, the cost is more, not harmonizing. So I
21 don't think I have a favorite horse to ride there. I
22 think both of those are important.

1 MR. VISHNUBHAKAT: Fair enough.

2 MS. GONGOLA: I have a question. You spoke
3 about the subsidization program that's available in
4 China. Has your company taken advantage of that or do
5 you know about any --

6 MR. ERCK: It's for subsidizing Chinese
7 companies to file outside of China.

8 MS. Gongola: Then that answers my question.
9 It's not available to U.S. based businesses.

10 MR. ERCK: Right.

11 MS. GONGOLA: Do you know the extent to which
12 Chinese businesses have taken advantage of that program?

13 MR. ERCK: We have a BIO representative that
14 might.

15 The answer is, no, we don't know.

16 MS. GONGOLA: Thank you very much. Dana has a
17 question.

18 MR. COLARULLI: Janet picked up on one thing.
19 I'm glad that you mentioned that in your testimony. I
20 think I gave Gary Peters, the representative from
21 Michigan, the credit for introducing this in the patent
22 reform, but it's not an idea that hasn't been floating

1 around in some of our appropriation bills. One of the
2 active discussions here, if other countries like China
3 are doing this, the U.S. should as well. And I think
4 that's an important aspect.

5 I didn't have a question, but I just wanted to
6 thank you for putting that point in there. You know, it would
7 be curious to see the extent of which those companies
8 are taking advantage of those types of programs in other
9 countries. And frankly the U.S., should be taking
10 advantage of it.

11 MS. GONGOLA: Questions or commentary from the
12 audience? Mr. Kasper.

13 MR. KASPER: One of the things that we
14 continue to talk about is having skin in the game. And
15 I wonder whether your association has looked at the
16 issue of service providers who provide legal services
17 having skin in the game of foreign filing. Obviously,
18 there are a number of companies that are members of BIO,
19 and the thought occurred to me as you were talking
20 whether there has been any study or there's any trend or
21 any anecdotal data as to how many of your member
22 companies have their attorneys, for example, provide

1 services in exchange for equity or other shares in the
2 companies.

3 MR. ERCK: I can answer only from my
4 experience and having been the CEO for three or four
5 biotech companies over the past 30 years. I have never
6 had attorneys who have been willing to take equity for
7 patent filers. But I don't know.

8 Does BIO have any? No, okay.

9 MS. GONGOLA: Other questions or comments from
10 the audience.

11 Thank you very, Mr. Erck, you may be seated.

12 And now concludes the closure of our scheduled
13 testimony, but we have two witnesses so far for
14 unscheduled testimony. Our first witness is Mr. Steven
15 Caltrider. He is Vice President and Deputy General
16 Counsel for Eli Lilly and Company. I believe he's
17 testifying today on behalf of the American Bar
18 Association IP Section. Mr. Caltrider please take the
19 podium.

20 MR. CALTRIDER: Thank you. Of course,
21 testifying on behalf of the ABA, you have to start with
22 a disclaimer because most of you are aware that the

1 views that I express are on behalf of the section of the
2 intellectual property law of the ABA. It's not approved
3 by the House of Delegates or the Board of Governors of
4 the American Bar Association, so it should not be
5 construed as representing the policy of American Bar
6 Association.

7 I also want to start off with a thank you to
8 Patent Trademark Office for the reference in America
9 Invents Act. They've been outstanding to date. And the
10 Section is looking forward to providing additional
11 comments on numerous sections in due course.

12 The unfortunate thing about this session in
13 particular is that your schedule is quite aggressive and
14 quite impressive and faster than the American Bar
15 Association that I was able to meet. So much of my
16 comments are limited by the fact that we didn't have an
17 opportunity to establish Section positions on specific
18 questions that you asked today, but I'm tapping into
19 some of the past policy positions that we've supported
20 over the years, many of which are not new to the PTO at
21 all.

22 So we don't have any comments on whether a

1 loan program or a grant program would be best for small
2 business, and we really don't have a lot of unique
3 incite from a small business perspective. Certainly a
4 number of our members represent small businesses, but we
5 never approached the question from a small business
6 perspective uniquely. So I'm sharing my incites from a
7 user perspective, which benefits all businesses, but
8 certainly those businesses with the smallest budgets
9 would be impacted the most.

10 We continue to support and advocate for those
11 efforts that reduce the cost substantially, and we've
12 heard a number of those topics today during the hearing.
13 Greater harmonization of the patent laws both
14 procedurally and substantively leveraging the PCT,
15 Patent Prosecution Highway, those initiatives, as well
16 as substantive -- those are procedural issues, and for
17 substantive issues to get greater certainty in
18 commonality in law, so that when you file a patent and
19 you file it internationally you understand what rights
20 you will get generally speaking worldwide and how to
21 leverage those rights.

22 We support also the initiatives to eliminate

1 the need to pay the full cost duplicative examination.
2 As a number of the patent offices worldwide get far more
3 sophisticated in their ability and the laws harmonize to
4 a significant extent, deferring the cost or
5 consolidating the cost of examination rather than
6 duplicating the cost of examination across foreign
7 jurisdictions is something that the Section supports.

8 Limitations or elimination of translation,
9 Section would love to see English as the common
10 language, as I think the accepted language of the
11 sciences, and most scientific journals are published in
12 English. The elimination of translation requirements or
13 at least the minimization or deferring of translation
14 requirements either to grant or some time very, very
15 late in the process or minimizing the number of
16 translations would be very important to the Section.

17 Supporting regional specific reforms, such as
18 the community patent in Europe, which is intended to
19 minimize the cost for a patent in Europe, both for
20 enforcement and procurement, again substantially driven
21 by reducing the number of languages that were required
22 in the community patent, all of those majors would

1 benefit all patent applicants, particularly those with
2 the smallest budgets in order to afford and pay for
3 those services.

4 In addition to harmonization -- and I
5 mentioned it earlier -- the greater certainty that would
6 be afforded through substantive harmonization of law
7 would very important. There's a great divergence at the
8 moment in many countries on what scope of protection you
9 can get, what subject matter may be patentable, what
10 data is required to support the protection. All of
11 those issues introduce significant costs as you try to
12 either file one patent application worldwide, and then
13 you find out later that the patent application is
14 deficient or if you're tailoring your patent application
15 in a country specific manner particularly as you enter
16 the international phase, it introduces a great deal of
17 cost and a great deal of burden on applicants to do so.

18 With regard to enforcing international patent
19 rights, I think much of the focus today has been on the
20 procurement side, and certainly that's where the
21 expenditures are most acute because the technology is
22 not yet proven, so it's an investment.

1 On the enforcement side, generally speaking,
2 for two parties to have a dispute, there is already
3 value proposition associated with the patent. So I
4 think the issues, in my opinion, at least, are less
5 acute; however, if you get to the stage of enforcement,
6 if you find your patent is not worth what you thought,
7 that clearly is a problem. So the Section continues to
8 support those activities that provide greater
9 enforcement certainty; international treaties that
10 provide the remedies of injunctive relief, compensation
11 for actual damages suffered through infringement.

12 The Section's closely monitoring efforts on
13 improving IP enforcement, certainly regions such as
14 China or other regions of the world that were
15 enforcements less proven to be effective, if you will
16 The Section is closely monitoring the formation of the
17 commonly IP court in Europe. That currently is a very
18 interesting debate. While single form could provide
19 what would appear to be more cost efficient resolution
20 for an IP dispute, if the procedures and the rules of
21 procedure before the court are not sufficient,
22 particularly having cross-examination of evidence and

1 witnesses, you would not necessarily have a better
2 program in the long run in terms of a fair system of
3 justice.

4 The ABA section of intellectual property law
5 appreciates the opportunity to provide this testimony,
6 with some apologies that it's more limited, and given
7 the timeline in terms of rearing a policy position from
8 the Section. I'm happy to answer any questions you may
9 have. --

10 MS. GONGOLA: Thank you, Mr. Caltrider. All
11 testimony, long or short, is most welcome.

12 Do we have questions from the panel?
13 Audience, questions or commentary?

14 MS. GONGOLA: Thank you, Mr. Caltrider, you
15 may be seated.

16 We have one final witness to give testimony,
17 Mr. Patrick Bahn, who represents TGV Rockets.

18 MR. BAHN: Thank you, ladies and gentlemen of
19 the panel. I didn't have time to prepare testimony, so
20 you would have to bear with me.

21 I think this is a very good idea, and it's an
22 administration and congressional idea that I think

1 deserves an awful lot of support. I'm glad to help in
2 any way I can.

3 I would suggest that from where I stand that
4 helping us get patented is more important than helping
5 us fight. If we have a patent that is worth a lot and
6 there is a dispute over it, I can get lawyers to buy in,
7 I can get investors at that point. But it's when it's
8 that new idea, you know, whether it's the, hey, we can
9 put a computer on a piece of silicone, you know, when
10 it's the, hey, let's put a music player in your shirt
11 pocket, those are ideas that are laughable, and that's
12 where it's hard to get the investment. So any
13 assistance in reducing our cost entries there pays off a
14 thousand fold.

15 Apple Computer is what they are, one of the
16 largest corporations in this country, because they had
17 the idea that you could put a music player in a shirt
18 pocket. Two-thirds of their product is based upon
19 evolution from that concept.

20 I do want to stress to the panelists that
21 there is an inherent danger of loans versus grants in
22 any of this assistance, because loans create contingent

1 liabilities and they create order of precedence
2 liabilities.

3 Having done an SBA loan, I was carrying all
4 these strange contingent liabilities on my own personal
5 balance sheet and on the corporate balance sheet that
6 was just freaking out other potential credit sources,
7 because they go, we see this here and it's the Federal
8 Government. And if anybody has ever done property, just
9 trying to do a refi, the first thing you have to do is
10 clear all those little -- you can have a \$2,000 home
11 equity line of credit and that can block a half million
12 dollar refinance. It's that kind of problem.

13 Especially in our field, which is possibly
14 second only to biotech in the length of time it takes us
15 to deliver product, you know, carrying around the
16 contingent liabilities that block our ability to do
17 other credit.

18 I support the prior speaker who was saying
19 that if you ask to put skin in the game, sure, look for
20 our other investments in it, look for whether we spend
21 money with providers, the micro entity reduction in fee.

22 But there is a great hazard in that contingent

1 liability. The other one is -- this is a little bit
2 outside of it -- anything that the PTO can do to speed
3 up first action, because it makes it a little uncertain
4 to us whether or not our patents are going to be
5 sustained.

6 I'm a sales guy. The next best thing to a yes
7 is a fast no. So if PTO says no, you know, I can
8 adjust my marketing plan. But if I am off in this
9 strange 18, 24-month period where I am starting to talk
10 to people about really breakthrough concepts, and then I
11 find out from my first office action down the line -- I
12 mean, I'm in that strange mode right now and I find it
13 very disturbing.

14 The micro entity fee structure is, I think,
15 important and brilliant. And there is one idea that has
16 not come up that I think is worth discussing: Patent
17 and trademark ultimately comes from the United States
18 Constitution. The Founding Fathers of this country were
19 brilliant visionary people. They saw two-and-a-half
20 centuries down the line on a system that has produced
21 tremendous amount of wealth and human happiness and they
22 chose to stick patents in the constitution. They were

1 talking to you. That's a very grave and important
2 charge we got from our Founders.

3 And for the taxpayers and for the PTO to
4 assist us in making these is, I think, a good idea. But
5 then we have something in the social contract back that if
6 you help us, there should be restrictions on the export
7 of these patent rights overseas. I mean, if GM or
8 Sandoz (phonetic) wants to be trading their patents
9 , that is their business, but if the
10 taxpayers are going to help us create these, there
11 should be restrictions or claw back penalties that these
12 patents have to stay with a U.S. entity, and then if
13 they do produce enormous value, they are taxable to the
14 American taxpayer, and that that gives you a political
15 result to show that you've invested into these, the
16 patent stayed here, the wealth was captured by the
17 American economy; and that's very, very important.

18 I'm okay with the government taking tremendous
19 amounts of risk scattering bread crumbs out on the
20 water, but the American taxpayers should have some right
21 to reach out and get ten times what they got back.

22 When the United States Government helps people

1 go to med school through the Indian Health Care, they
2 require you to give either a certain number of years of
3 service wherever they want or you have to pay three
4 times your initial grant back to the IHS. And certain
5 people have discovered that life on the reservation in
6 South Dakota is not to their taste and discovered that
7 paying \$750,000 is also not to their taste, but it's
8 part of that social contract.

9 I believe that's important. I mean, we have
10 people stacked up on Wall Street, McPherson Square,
11 ready to burn because we have failed to associate the
12 social contract to government policy. And I think
13 that's an important thing to consider.

14 And with that I'll take questions.

15 MS. GONGOLA: Thank you, Mr. Bahn. Questions
16 from our PTO panel. David?

17 MR. CHAIT: Thank you, Mr. Bahn, for your
18 testimony as well as some of your earlier questions.

19 My question to you goes back to the sources of
20 capital. I appreciate your comments regarding the
21 issues relating to the loan programs and contingent
22 liability issues. My questions for you relates to the

1 current state as we're trying to understand what are the
2 current status and where are our folks financing some of
3 the international patent projects.

4 So my question for you is, as an alternative
5 for traditional loans, where does a company like yours
6 or others that you have seen go?

7 MR. BAHN: Well, to quote a comment that I
8 said to the press in 1999: One of our largest investors
9 is American Express, they just don't know it yet.

10 I mean, that is one of -- essentially we
11 either scratch up micro capital, fool friends and
12 family, we do without. Frankly, right now I'm looking
13 at bypassing most international patent rights because
14 it's too far afield and it's too risky. It's
15 challenging enough for us to market our concepts within
16 the North American economy. We understand it.

17 And the cost -- and this is worth it for the
18 record, the cost for me to go out to California and
19 spend a week, bopping around in L.A., San Francisco and
20 talking to people is under 1,000 or \$2,000, if I am
21 careful. The cost for me to go to Paris or London is on
22 the order of \$10,000. Much risk and also much riskier,

1 because frankly, they don't want to talk to one of these
2 damned Americans. It's a much lower return on
3 investment and a much higher cost.

4 So, you know, I know of other people in
5 similar situations who are just passing on international
6 rights. In our global world, that's tragic. So when I
7 heard about this, I rejuggled my schedule to come down
8 here and talk about this sort of thing.

9 I mean, the big outfits, they're operating
10 globally. Piece of cake for them. Small outfits, very,
11 very, very difficult.

12 MS. GONGOLA: Question from Stu.

13 MR. GRAHAM: Thank you, Mr. Bahn. So this
14 might be an unfair question, but to the extent you can
15 answer it, if you were to decide to pursue that marginal
16 international patent, spending the many tens of
17 thousands to get it, what would it come at the expense of?
18 What would you not do in order to pay for the patent?

19 MR. BAHN: Food, shelter. One of the other
20 speakers was talking about -- this is on the order of
21 half or one single full-time employee, and that is
22 exactly the kind of problem. You look at trying to sack

1 people out of your engineering budget; you have to look
2 at cutting it -- you know, four years into the greater
3 recession, it's a fairly painful process. It's really a
4 question of what other vital priorities die if you want
5 to pursue that sort of thing. You have to look at the
6 cost benefit analysis.

7 The cost benefits are usually significantly
8 better for the domestic case than the international
9 case, even when their ideas are worth billions of
10 dollars. You have to look at those costs. But if the
11 PTO is able to change that calculus and drop it down to
12 on the order of what we pay for our domestics, then it's
13 worth it to roll the dice.

14 But cost of translation, cost of international
15 filings, cost of maintenance in the first couple of
16 years. I mean, if the idea is really truly guarded it
17 may not come through. But the first filing and the
18 initial maintenance, you can really change that.

19 Small businesses are really your source of
20 innovation. They are where your interesting ideas come
21 from. So if the administration and the Congress is
22 trying to push this through it's a very farsighted

1 thing.

2 MS. GONGOLA: Comment from Dana.

3 MR. COLARULLI: Comment or question. Thanks
4 again for coming out. You are the target audience for
5 this discussion. I was glad that you highlighted the
6 issue of the importance of first action and the speed of
7 first action. That's one of the things the current
8 USPTO has been building the budget to do, and have spent
9 tremendous amount of resources over the last two years.

10 So, again, in a few years we will have hired the
11 workforce we need. We have this system to get to 20
12 months for final action, 10 months for first action.
13 That's the goal that we stated in the present budget
14 press and all our budgets. And if the AIA helps us
15 to get there quicker, it helps us get a little more
16 certainty to our funding and provides additional
17 resources.

18 So I think you're exactly right, I think the
19 value there can't be undervalued.

20 MR. BAHN: If you can get it down to 90 days,
21 because that's within our planning. In 10 months, next
22 year, who knows what is happening. But I mean, if that

1 first office action comes back in 90 days, we can
2 rapidly react.

3 MR. COLARULLI: 90 days is tough.

4 MR. BAHN: I realize 90 days is tough. I'm
5 not giving you an easy problem. I'm just telling you
6 that we have hard ones.

7 MR. COLARULLI: Certainly, as you said, with the
8 amount of uncertainty, the quicker we can act in that
9 time frame the better. I think that point is well taken.

10 I want to ask you, a number of folks and a
11 number of witnesses mentioned additional resources or
12 parallel things for funding that the PTO or the
13 government can provide. Getting the funding, certainly,
14 and you reiterated the focus is on your
15 mind, earlier helping to offset the filing cost.

16 But what other services do you think are most
17 important for PTO to look into that are non-monetary to help
you
18 and others like you to be more successful, particularly
19 in patenting?

20 MR. BAHN: Now I've got to think about that.

21 MR. COLARULLI: It's a good opportunity for
22 written testimony.

1 MR. BAHN: On the one hand the PTO is a judge,
2 you're an arbitrator, you're referees, and I am loathed
3 to ask to you step outside of that role. You
4 fundamentally have to kind of sit there and listen to
5 all these whacky little guys and all these big
6 organizations, global multinationals and try to treat
7 them all very fairly. But then at the same time you're
8 also trying to encourage the general filing.

9 So maybe some of the tools by which we do the
10 filings can be improved. I mean, certainly there's been
11 a tremendous amount of work done both by the third-party
12 sector and search tools.

13 I'm old enough to remember when you had to go
14 to Chicago Public Library and go downtown and go into
15 the second basement below and pull microfiche and sit
16 there and read patents. That I can sit in my living
17 room on the couch with my iPad and surf through Google
18 patents is a big plus.

19 Now, what is a little bit unnerving to me is I
20 have no idea what Google is doing with that. I'll put
21 an interesting phrase in there. Is there somebody the
22 next morning sitting there at the park or Sunnydale

1 reading the search terms and going, that sounds really
2 interesting, should we do that.

3 If that sort of service could be provided by a
4 neutral third party, you know -- you know, there's
5 always that slight worry that I'm feeding the worlds
6 largest multinationals my good ideas through the search
7 process. And if you have a truly brilliant idea, what
8 are you giving away to people who have no duty to treat
9 you fairly?

10 And I hate to talk about these guys. But the
11 Intuit Corporation at one time created a wonderful set
12 of tools for Turbo Tax and QuickIt. And they kind of
13 created these very powerful tools that let you pull a
14 bunch of stuff together. And if there was a sort of
15 generic open source patent writing tool that, you know,
16 went out and, you know, pulled all this together and
17 simplified sort of the initial process -- I don't mind
18 paying my lawyer to think. He's a very smart guy, and I
19 want pay him to do top notch stuff.

20 If I can sit there and kind of format it up
21 roughly and have that sort of tool that let me get it
22 together in some halfway decent fashion, particularly if

1 it was open source and non-priority, that would a useful
2 sort of thing.

3 The open source community has done an awful
4 lot work. And when you're doing your first patent
5 filing, all that stuff is very scary and very
6 challenging. So that might be different.

7 The other one is just -- You Tube has created
8 a tremendous amount of valuable community assessable
9 multimedia for how things work. If you could encourage
10 some of the social media tools and some of the -- to
11 have basics on, you know, kind of short videos on how
12 this all works and what all this means because you
13 know

I hate to sit there with a lawyer and paying

15 him \$300 an hour to explain the basics of PCT. There's
16 other people I can go to. But still there's an awful
17 lot of people off in Idaho who may have a great idea and
18 have very few resources, and the Internet can provide
19 them a leveling source. That may be something.

20 I will think about this and see if I can
21 comment on written testimony later, but those are the
22 first couple of ideas off the top of my head.

1 MS. GONGOLA: Questions from the audience or
2 commentary. Mr. Reed?

3 MR. REED: This is part question and part
4 comment. I think the interesting part you raised about
5 cost and how do we offset them, I was thinking about it
6 while I was sitting here. The only successful venture
7 capital of the government is called In-Q-Tel. And for
8 those in the audience who don't know what In-Q-Tel is,
9 it's the venture capital arm of the intelligence
10 community.

11 And the reason they are able to take the risks
12 is that no one asks them about their failures. So it
13 will be very hard for any other government agency to
14 take the kind of risks that In-Q-Tel does, because no
15 one asks them questions.

16 What do you think about the idea of being able
17 to limit -- about the loan and the grant that limits --
18 limits it to allowing us to get a foreign filing that --
19 so we know the government won't take risks. The SBA is
20 not In-Q-Tel. The SBA isn't capable of that.

21 What if as a person if we were able to lower
22 the FTE loss to just say, look, here is my patent, I've

1 paid my lawyer. Will the SBA be able to fund or
2 subsidize my Chinese translation or my translation?

3 So it's a limited scope that ends up adding a
4 marketable value because in the end, I now have a patent
5 in multiple countries as you accurately pointed out.

6 So the AIPLA's commentary about skin in the
7 game, maybe if we limited it to just help us with that
8 narrow swab of internationalization, what do you think
9 of that as a way to get out of the risk problem that we
10 know the SBA won't be able to solve?

11 MR. BAHN: Certainly that sounds good.
12 Certainly, it would be simple to administer. It's
13 always -- the easier it is and the more likely you can get a
14 GS7 to wrap their head around what you're doing, the
15 more likely you are to succeed, because the folks on the
16 panel are all wonderful and top notch people, but the
17 rubber hits the road at the GS7 clerk level. So
18 something very, very simple to administer would be a big
19 plus.

20 The State of Oklahoma has some interesting
21 tools. They go through the -- they go through the State
22 University, and you pay a fairly minor fee, and they

1 have very smart professors who are attached to this.
2 They help you do a pre-patentability search. They try
3 and do a, does this make any sense or are you just doing
4 the laser cat toy.

5 For those who may not be familiar, someone got
6 a patent on a method to entertain cats with laser
7 pointers. I admire their boldness, but I thought it was
8 possibly the single most ridiculous and unenforceable patent I
9 had ever seen in my life. What are you going to do, sue
10 everybody that has a laser pointed at a cat?

11 They try to do a logic check on it. I mean,
12 maybe some sort of cooperative program pushed through
13 the land-grant university system where, you know, they
14 provide that level -- you know, they provide that sort
15 of assistance at the state level, that might be
16 something to look at.

17 But, I mean, if you're a small entity and
18 you've done the U.S. filing and the patent office just
19 says stamp -- you pay 10 percent of the international
20 fees, you stamp it off, and we'll go with that. Sure,
21 that's easy to implement. That's certainly -- but like
22 I said, if the American taxpayers are going to put their

1 money into something, there should be some return to
2 they point back to. I think it's unfair to ask the
3 taxpayers to pay for this and see these patents end up
4 all in Bermuda and the island producing
5 trillions of dollars sitting offshore and waiting for a
6 tax holiday to come back. That sort of unfairness in
7 our system is crushing the American into a class.

8 So if you are going to invest, look for a
9 decent clawback or some sort of restriction on where
10 this IP can sit.

11 MS. GONGOLA: Other questions or comments from
12 the audience?

13 Please state your name and if you're
14 representing an organization.

15 MR. BROWN: My name is Mr. Brown, and I have
16 been a patent examiner here for a decade, and I work in
17 T.V. and interactive distribution. I just happened to
18 be walking by today during lunch and saw the forum.

19 I had a question for the inventor, and it also
20 could be answered by some of the other participants.
21 Since the focus of this forum is on international patent
22 protection -- for instance, I've worked on a lot of PCT

1 applications and it seems to be that part of the issue
2 is the question of when an inventor is taking his or her
3 idea and applying it to the different countries. Part
4 of the issue is, from my perspective as an examiner
5 here -- and I think I was just sharing with one of the
6 panel members -- you know, when you're applying for a
7 patent, I mean, it's sort of every situation is
8 different and whether or not you get the protection is
9 based on what your idea is with respect to all the other
10 ideas out there, already patented or intellectual
11 property that's out there. I think one of the
12 participants mentioned that the government shouldn't be
13 in the business of picking winners and losers.

14 So beyond that, what sort of structures -- for
15 instance, one of the things mentioned is translation
16 services. I think that's a uniformed kind of thing that
17 could be done. Obviously, it is a question of money.

18 But beyond that, let's say if -- with respect
19 to the PCT, would the panelists or the presenters state
20 that, for instance, if an inventor has an idea and one
21 applies for the PCT, should the international structure
22 be such that if that idea is granted sort of as an

1 international patent so that, for instance, whatever
2 patent that is granted, not necessarily out of the U.S.
3 or out of any particular country, but should there be
4 sort of an international patent so that, you know,
5 therefore you don't have to apply in every single
6 country or would that, by definition, be a problem
7 because each country has their own sovereignty?

8 So it seems to me that the questions that
9 we're getting into is, you know, either you have a one
10 size fits all model or you simply have to do it every,
11 you know -- country by country by country, because each
12 country is different. And a patent examiner in China or
13 EU or France or whatever, that person is examining a
14 case based on intellectual property he or she is looking
15 at; and so a patent may be granted in one country and
16 maybe not in another country. And that is some of the
17 issues that we see with PCT.

18 So the question is, are there structures that
19 can make it simplified such that one thing is stretched
20 across the other countries so that it's, you know, like
21 that? So the question is, are there structures that
22 could be done that would level the playing field?

1 MR. BAHN: That was kind of a broad ranging
2 comment. From where I sit, we take the world as it
3 lays. I mean, there may be better ways for the
4 patentees to be organized, but I have a strange and
5 vague feeling that it was very painful for you to get to
6 where you are today.

7 I am loathed to ask the members of the panel
8 to take on a global flight. It took a panel and the
9 people doing the system, who are all intensely smart and
10 well-meaning people, millions of man years to get to the
11 system we have. Changing that system is always
12 difficult and painful.

13 But the panel represents the United States
14 Government. The United States Government is good at one
15 thing, writing checks. I have my master's in
16 government. The government is extremely good at writing
17 checks. So writing checks to help us just cover the
18 filing fees.

19 It's my duty, if I'm interested in a Chinese
20 patent, to adjust the patent to meet Chinese
21 requirements. If I'm writing a patent in Indonesia and
22 there's not a lot of prior art there, I can claim the

1 iPod. That's more sort of the thing for me.

2 I mean, the system is what the system is. How
3 we choose our business strategies, you know, we do that
4 from our best instincts and best analysis.

5 As one of the other speakers spoke about,
6 helping reduce the barriers, whether that's translation
7 or whether that's fees. Those are basic common good
8 expenditures by the government. You're good at that.
9 All of you represent the United States Government in
10 some way, shape, or form.

11 The other one is I believe the State
12 Department and the DOT spend a lot of money in
13 translation as it is. So you may be able to leverage
14 those investments. I know the State Department spends
15 an awful lot of money getting all the international
16 press. There's other agencies that are spending an
17 awful lot of money translating international technical
18 work so the American scientists are able to read the
19 latest and greatest Russian scientific literature.

20 So you may be able to leverage those efforts
21 in kind of a cross agency working group. Then it
22 becomes a little more cost effective rather than setting

1 up your own.

2 And especially duplication. It's asking the
3 State or asking NIH or asking Department of Energy to
4 just broaden their effort, a little bit of money from
5 you guys to -- the State Department to push out just
6 technical literature into the patent literature may just
7 be the simplest and cheapest way; you write a check to
8 another government agency. That's even easier. But
9 that's kind of my thinking.

10 MS. GONGOLA: Comments from the panel or other
11 audience members?

12 MR. CHAIT: I would just like to say thank you
13 for the comments from the gentleman as well as from
14 Patrick.

15 And sort of taking a lens on that, we see a
16 spectrum of ideas that were just laid out, but what I'd
17 like to say that I appreciate the most is the concept
18 that was laid out of what are value added services,
19 programmatic changes, et cetera that hit a broad swath
20 of individuals seeking international patent protection
21 and what are the types of structures that can be
22 created to help support this, a long variety of things

1 ranging from translation services, et cetera.

2 So as we move into a period of written
3 testimony, I think that whether or not the efficacy of
4 some of these ideas lay -- that's a mix -- obviously a
5 reported evaluated, et cetera. But laying out these new
6 types of ideas is just fantastic. So I just want to
7 say, probably many folks agree, thank you for that and
8 to keep those coming.

9 MS. GONGOLA: Other comments?

10 MR. TRAMPOSCH: Thank you for all the comments
11 and that follow-up.

12 Just to let you know how good your ideas are,
13 we have been working on them for over 130 years. It
14 goes back to the Paris Convention which established
15 something that anyone who ever filed a patent
16 application knows about, and that is priority period.
17 Also, the Paris Convention established the national treatment
principle that
18 says you have to accord the same benefits to foreign
19 national as you accord to your own nationals. This is
20 extremely important.

21 The process continued through the Patent
22 Corporation Treaty in 1970, the agreement in 1994, and

1 our office is in very intensive discussion with other
2 offices around the world on harmonization on patent
3 laws; and that goes back at least 25 or 30 years.

4 More importantly we are looking at practical
5 ways to do exactly what Examiner Brown was talking
6 about, and that is how to reduce the duplication of
7 examination around the world. And we refer to that now
8 as work sharing.

9 We have a number of processes that hopefully
10 as an examiner you will get to know very well. One of
11 them is the PPH, Patent Prosecution Highway, where an
12 examiner like yourself can utilize the work that was
13 already done by examiners in other offices. And there
14 are other ways of work sharing that we are looking
15 specifically to reduce the cost, to accelerate the
16 examination, and to facilitate getting patents,
17 especially by small businesses.

18 So that's a long winded way of saying that,
19 what we are looking at now is what are other ways that
20 we can help small businesses to obtain patent protection
21 around the world. We are not close to a single world
22 patent. We are close to a single European patent, but

1 we're not even there yet.

2 So that may come down the line. It may be a
3 good idea, but may not be. The question is, how can
4 you get patent protection in a large amount of countries
5 where you want to market your product to get the full
6 value out of your innovation? You'll get the full
7 value out of your innovation if you have patent
8 protection around the world and can market it in all those
9 countries. How can you do that without breaking the
10 bank? I think today's discussion has been an
11 extraordinarily good step forward in that discussion.

12 MS. GONGOLA: Any final comments, panel or
13 audience?

14 MR. BAHN: Thank you to the panel for having
15 me out here.

16 MS. GONGOLA: Today's participation in our
17 international patent protection study has been
18 wonderful. To Mr. King, Mr. Reed, Mr. Kasper, Mr. Erck,
19 Mr. Caltrider, and Mr. Bahn, as well as all of you in
20 the audience, I cannot emphasize enough how much your
21 input is valued by the agency.

22 It is our goal to make our report on this

1 study as accurate and well informed as we possibly can.

2 As a final reminder, written comments for the
3 international patent protection for Small Business Study
4 and Prior User Rights Study are needed by November 8th.
5 Our reports to Congress will be produced in mid-January
6 for both studies.

7 We encourage those watching today via the
8 microsite to consider submitting their input. It is
9 still not too late to do so.

10 I now officially close the international
11 patent protection hearing and wish you all a safe travel
12 home, wherever that may be.

13 (Thereupon, at 3:58 p.m., the hearing
14 concluded.)

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CERTIFICATE OF NOTARY PUBLIC

I, Janie G. Arriaga, Court Reporter, before whom the foregoing Hearing was taken, do hereby certify that the testimony that appears in the foregoing hearing was taken by me stenographically, and that I thereafter reduced it to typewriting; that said hearing is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken; and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto; nor financially or otherwise interested in the outcome of the action.

JANIE G. ARRIAGA,
Notary Public

My commission expires: July 31, 2014