

UNITED STATES PATENT AND TRADEMARK OFFICE

ATTRIBUTABLE OWNERSHIP PUBLIC HEARING

Alexandria, Virginia

Thursday, March 13, 2014

1 PARTICIPANTS:

2 USPTO Staff:

3 JANET GONGOLA
4 Senior Advisor Office of the Under Secretary
5 of Commerce for Intellectual Property and
6 Director of the USPTO

7 DREW HIRSHFELD
8 Deputy Commissioner for Patent Examination
9 Policy

10 BOB BAHR
11 Senior Patent Counsel Office of the
12 Commissioner for Patents

13 ALAN MARCO
14 Acting Chief Economist Office of Policy and
15 International Affairs

16 Witnesses:

17 CHARLES DUAN
18 Public Knowledge

19 SCOTT POJUNAS
20 Hewlett-Packard Company

21 HERB WAMSLEY
22 Intellectual Property Owners Association

RAYMOND VAN DYKE
Inventor Network of the Capital Area

RICHARD NEIFELD, Ph.D.
Patent Attorney, Neifeld IP Law, PC

ROBERT HARDY
Director, Contracts and Intellectual Property
Management Council on Governmental Relations

22

1 PARTICIPANTS (CONT'D):

2 MORGAN REED
3 Executive Director Association for Competitive
4 Technology

5 TIM SPARAPANI
6 Vice President of Law, Policy, and
7 Government Relations Application Developers
8 Alliance

9 * * * * *

10
11
12
13
14
15
16
17
18
19
20
21
22

1 P R O C E E D I N G S

2 MS. GONGOLA: The hearing of portion of
3 our program, I will invite our witnesses one by
4 one to please come forward to the podium to
5 deliver your remarks to the audience. Our first
6 witness is Charles Duan, who is presenting today
7 on behalf of Public Knowledge.

8 MR. DUAN: Hi, there. Thank you, Janet.
9 My name is Charles Duan. I work with the
10 organization Public Knowledge. We are a public
11 interest organization. We mostly focus on public
12 interest and technology related issues.

13 So I wanted to make a fairly short
14 presentation, kind of making three points. The
15 first point being that we believe that the patent
16 ownership information that's being collected in
17 this program will be very useful, both to the
18 Patent Office and to the public, for many of the
19 reasons that we've discussed.

20 Second that, you know, transparency of
21 ownership is a problem not just for patents, but
22 for a lot of other fields, such as finance and

1 land ownership and a lot of other things. And,
2 you know, I think that leads to two conclusions.
3 First of all, that, you know, again, this is
4 useful information not just for the Patent Office,
5 but for the public. And second, by looking at
6 some of these other fields -- and this is the
7 third point -- we can learn lessons about how
8 other areas of have dealt with the problem of
9 ownership and identity and possibly incorporate
10 some of those ideas in to the ultimate rulemaking.

11 So as I mentioned, I work with Public
12 Knowledge. And one of the nice things about being
13 in the public interest community is we get to talk
14 with a lot of people doing public interest work in
15 a lot of other fields. So, you know, a lot of
16 this presentation is based on ideas that I've
17 received from other organizations that work more
18 in corporate disclosure, campaign finance, other
19 sorts of areas like this. So a lot of things I'll
20 be saying, you know, if you want more information
21 on them I can connect you with the appropriate
22 people for that.

1 So to start off with the first point,
2 patent ownership information is useful. I think
3 that Drew identified a number of very important
4 points that were also identified in the Request
5 for Comments for why ownership information is
6 useful both to the Patent Office and to the
7 public. In terms of the Patent Office, I think
8 I'd categorize a lot of those features as kind of
9 oversights of patent applicants and owners. Drew,
10 you mentioned confirming powers of attorney and
11 identifying conflict of interests and determining
12 after-grant standing for filing post-grant
13 procedure documents. One other thing that I
14 thought of would be determining whether the
15 selection of small entity status is correct. You
16 know, if somebody files an application and they
17 name themselves as the attributable owner, but
18 they're paying large (inaudible) fees, you know,
19 the Patent Office might be able to come in and
20 say, you know, there's some discounts that you can
21 take advantage of there. So, you know, I think
22 that could be very useful.

1 And additionally, the accuracy of the
2 information given to the public, that's an
3 important function of the Patent Office, to make
4 sure that the public is informed on ownership of
5 patents and having accurate information is
6 important there.

7 Additionally, this ownership information
8 is very useful to the public at large and to the
9 companies who work in the patent space and who
10 work in the innovation space. Understanding the
11 competitive environments, you know, knowing what
12 other competitors are out there, what they're
13 filing on, you know, knowing that sort of
14 information can be really useful to business.
15 Additionally, having information can facilitate
16 licensing because you know who you are negotiating
17 with; you know if you see a patent you can go talk
18 to this person and say, you know, hey, I'd like to
19 get a license from you.

20 Similarly, the Request for Comments
21 identified avoiding abuse of litigation threats
22 because of the fact that we'll know who's behind a

1 lot of those.

2 And finally, one other thing that I
3 would add that wasn't in the Request for Comments
4 is facilitating patent landscape research. So,
5 you know, right now we're having a really big
6 policy debate over, you know, what we should do to
7 reform the patent system, both in litigation and
8 patent applications before the Patent Office. And
9 having data on, you know, who's filing
10 applications and who's using their applications
11 for what and who's asserting their patents, you
12 know, that information is very useful for research
13 and for policymaking and for decision makers, so,
14 you know, I think that collecting this information
15 has substantial value to that sort of research
16 effort.

17 So these are the reasons that go with
18 the first point as to ownership information being
19 useful. So now, moving on to the second point
20 that this is not just a patent problem.

21 You know, there are lots of other fields
22 in which identifying relevant parties of interest

1 is very important. You know, land ownership is
2 one of them. The reason we record title deeds is
3 so that if I walk up to somebody's land, then I
4 want to know, you know, whose land am I
5 trespassing on? You know, I can find that out by
6 going to the appropriate place.

7 Legal ethics is another area where
8 identifying parties is important because I need to
9 know, you know, if I have a conflict of interest
10 with a client that I take on.

11 Campaign finance is another problem --
12 you know, we work with a lot of people who -- they
13 work on transparency of corporation donations to
14 campaigns and, you know, trying to uncover who
15 owns this nonprofit organization or this LLC
16 that's donating money to this organization.
17 That's a fairly important task.

18 And the final one, which I want to spend
19 the most time talking about, is financial markets.
20 So as I'm sure that you all know, we had a
21 financial crisis a couple years ago. And one of
22 the things that happened there was Lehman Brothers

1 collapsed. When Lehman Brothers collapsed, a
2 whole bunch of companies held basically financial
3 securities that may or may not have been owned by
4 Lehman Brothers. The parties were scrambling to
5 figure out whether or not they had rights in some
6 of the bankruptcy assets. But because of the fact
7 that the identifiers for financial entities is
8 very poor, it became very difficult for them to
9 figure out, you know, what's my exposure to their
10 bankruptcy? As a result, there was a great deal
11 of confusion in the financial sector.

12 So kind of just boiling that story down,
13 basically you have a big financial event, the
14 parties try to figure out the rights are. There's
15 a lack of identifiers for who the parties are and,
16 as a result, you have a great deal of confusion.
17 And you can see very similar problems happening
18 with a lot of the patent issues that we have,
19 right? You have a big patent event. You have,
20 for instance, somebody who sends out a lot of
21 demand letters asserting a patent. The parties
22 receive the letters, they scramble to figure out

1 what are their rights in view of this assertion,
2 right? They want to know whether or not they
3 assert the patent -- they infringed the patent or
4 now. They want to know whether or not they can
5 take a license. They want to know who to take the
6 license from. Right? But there's a lack of
7 identifiers for the patent owner. And as a
8 result, there's a great deal of confusion. So you
9 see that this is a very similar problem to what
10 the financial sector has faced.

11 Indeed, the U.S. Treasury, responding to
12 the Lehman Brothers collapse, said, "Subsequently,
13 the financial crisis exposed the depth of the
14 problem of identifying financial connections and
15 underscore the need for a global system to
16 identify and link data so that financial
17 regulators and firms can better understand the
18 nature of risk disclosure across the financial
19 system." All I need to do is change a few words
20 and that applies perfectly well to the Patent
21 Office.

22 Subsequently, patent assertion events

1 expose the depth of the problem of identifying
2 patent ownership and underscores the longstanding
3 need for a global system to identify and link
4 data, so the Patent Office and firms can better
5 understand the nature of risk exposure across the
6 patent landscape. Right? We're seeing very
7 similar problems.

8 And indeed, when we start comparing some
9 of the reasons for having attributable ownership,
10 I think that we can start seeing that there are a
11 lot of similarities. Right?

12 Oversight of applicants -- well,
13 financial regulators also need to oversee the
14 banks. Accuracy of information to the public --
15 well, you know, financial regulators need to make
16 sure that the reporting on the nation to the
17 public correctly. Understanding the competitive
18 environment, you know, banks want to understand
19 the competitive environment as well. So, you
20 know, a lot of these things are very similar.

21 And as a result -- so what I did was I
22 talked to some of the people who work on, you

1 know, the problem of identifying legal entities in
2 the financial sector. And there were a couple
3 things I got out of that discussion with them.

4 The first is, you know, what are some
5 good qualities of an identification system? It
6 should be simple, right. You know, the
7 identifiers shouldn't be very long, they shouldn't
8 be complicated. It should be accurate. It should
9 avoid the possibility of typographical errors.

10 You know, if somebody puts dot-inc -- if somebody
11 puts "inc." on one of them and "co." on the other,
12 you know, those are basically the same company,
13 but we want to make sure that they look like two
14 different records. We want them to be unique. We
15 don't want two companies having the same name,
16 looking like they're the same company. And we
17 want them to be consistent. We don't want it to
18 be the case that if a company changes their name
19 or they change their location that suddenly they
20 look like two separate companies. So these are
21 kind of important factors that people have been
22 thinking about and I think that they would apply

1 to identifying owners of patents as well.

2 The solution that a lot of people are
3 talking about right now and that Treasury has
4 adopted and a lot of other people have been
5 looking at is what's called the Legal Entity
6 Identifier System. This is basically a program
7 that they've been working on ever since the
8 collapse of Lehman Brothers, to develop basically
9 a standard for identifying legal entities, so, you
10 know, LLCs and corporations.

11 The proposed system, which is in use
12 today, it's being used right now for financial
13 entities, although, you know, the working groups
14 are still working out some of the details. It
15 proposes a unique identifier for every legal
16 entity out there. A legal entity would just go
17 and register. They would, you know, provide
18 certain information about who they are, the
19 registrar would check to make sure that they're
20 not already in the database, and then they would
21 give them this unique identifier. And that unique
22 identifier would be globally consistent. It would

1 stay the same regardless of all changes, you know,
2 change your name, change your location, you would
3 still have the same identifier.

4 And kind of in conjunction with that,
5 the regulators would maintain a database of
6 information about, you know, your corporate
7 address that's currently up to date, your legal
8 name. And in, hopefully, a future iteration
9 they'll actually be keeping track of intermediate
10 and ultimate parent entities, which means that you
11 would only need to collect, you know, just one
12 legal entity identifier and you would know the
13 entire chain of ownership automatically. So, you
14 know, I think that's a really valuable thing for
15 the financial industry and I can see it being very
16 valuable for the Patent Office as well.

17 You know, besides the fact that they'll
18 have that hierarchical system, which, you know,
19 they're working on right now. And one of the
20 advantages of that is that, you know, as people
21 discover new ways to form corporate structures,
22 these guys who are in the working group will be

1 keeping up to date on that, So they'll keep
2 updating the standard to deal with that, which,
3 you know, has the advantage that the Patent Office
4 doesn't have to keep going back and looking at
5 kind of corporate structures and figuring out, you
6 know, what's changed in the landscape.

7 Other benefits of the legal entity
8 identifier standard: Simple, accurate data
9 collection, right? It's just one identifier. You
10 collect the identifier, you need everything you
11 need to know about the company. As a result, you
12 can easily correlate similar assets. You know, I
13 can easily find all the patents that are owned by
14 this one company because they all have the same
15 identifier. Right now, you know, I go to the
16 assignment database and a lot of times, you know,
17 some of the names will be misspelled or somebody
18 will have changed the names a little bit or the
19 corporation's name will have changed a little bit,
20 so, you know, trying to correlate that data is
21 actually a fairly difficult project every once in
22 a while.

1 And because of the fact that this is a
2 very open standard that a lot of people are
3 working on it across the world really, people are
4 developing all sorts of really useful
5 visualization and aggregation tools. And, you
6 know, that means that, you know, the Patent Office
7 would be able to benefit from that sort of
8 standard.

9 So, you know, what can we take out of
10 this? This is kind of the third point. You know,
11 I think one thing that they have suggested to me,
12 some of these people who work in this area, they
13 said, you know, maybe allow optional submission of
14 a legal entity identifier if you have one. Right?
15 And that would have the advantage that, you know,
16 if you change your corporate name, then still the
17 identifier would remain consistent and you would
18 be able to correlate across time.

19 Additionally, they mention that a lot of
20 states already have programs for identifying
21 corporations uniquely, so they already have ID
22 numbers. So possibly, you know, accepting

1 submission of those could be useful as well.

2 And the third thing is, I guess, you
3 know, this is kind of an ongoing process,
4 developing the standard, but I think it's one
5 worth looking into: Figuring out, you know, what
6 are the challenges that they run against when
7 trying to develop the standard for identifying
8 legal entities? You know, what are the solutions
9 that they've come up with? Because I think
10 there's a lot to be drawn from that process given
11 the similarity between, you know, the problems
12 that the financial sector are facing and the
13 problems that the Patent Office are facing.

14 So, you know, I think that this is an
15 area that is fertile for consideration and, you
16 know, I hope that you will be interested in it and
17 will consider it. And I'm happy to talk with you
18 more about that. Thank you.

19 MS. GONGOLA: Thank you very much, Mr.
20 Duan. Our second witness at our hearing today is
21 Scott Pojunas from Hewlett-Packard Company.

22 MR. POJUNAS: Good afternoon. As Janet

1 mentioned, my name is Scott Pojunas and I'm a
2 director in the patent development group at HP and
3 I manage a team of attorneys who support HP
4 software. I wanted to figure thank the USPTO for
5 the opportunity to be here today and to present
6 views on the attributable owner package on behalf
7 of HP; Curt Rose, our senior vice president and
8 deputy general counsel and chief IP counsel; and
9 also Bob Wasson, our VP and associate general
10 counsel for patent development.

11 I did want to note at the outset that
12 while HP is a sustaining corporate member of the
13 Intellectual Property Owners Association, we serve
14 on the IPO board and we agree with IPO's position
15 on many issues, our views on this important matter
16 do differ in some respects from the views that IPO
17 Executive Director Herb Wamsley will share after
18 I've concluded my remarks today.

19 HP continues to support transparency in
20 patent ownership and the proposal to require
21 submission of attributable owner information at
22 various points throughout the life cycle of a

1 patent. We continue to believe that parties can
2 reasonably expect to disclose their identity as
3 part of the quid pro quo of obtaining a patent.
4 And as the Supreme Court has stated, a patent by
5 its very nature is affected with a public
6 interest.

7 We also agree with the numerous benefits
8 that were stated by the PTO in the notice. First
9 of all, the proposal would bring increased
10 economic efficiency in the marketplace. Lack of
11 transparency introduces significant transaction
12 costs and receiving and disseminating information
13 regarding the attributable owner would enable
14 innovators to identify the patent owner and seek
15 out licenses in an efficient manner.

16 Secondly, we think the proposal would
17 level the playing field in licensing and
18 litigation. Some parties rely on intentional
19 obfuscation of the chain of title to gain an upper
20 hand in licensing negotiations and litigation, and
21 this is a genuine problem. Based on extensive
22 research involving numerous public data sources,

1 IP Checkups and PlainSite.org have identified
2 literally thousands of shell companies that own
3 patents.

4 Third, we think the proposal would
5 enable attorneys to more effectively serve the
6 critical function of managing risk of their
7 clients. Ultimately, the identity of the owner of
8 a patent is a key consideration when performing a
9 patent clearance analysis. And without ownership
10 information readily available, it becomes
11 significantly more difficult when clearing patent
12 rights to determine whether to seek a license,
13 design around, or avoid entering a market
14 entirely.

15 And finally, as the PTO spelled out well
16 in the notice, we think it would also provide
17 advantages in examination and post-grant
18 proceedings.

19 HP has carefully evaluated the cost of
20 complying with the proposed rules with respect to
21 our portfolio and we believe that the benefits of
22 the proposal justify the cost. As I'll explain in

1 a bit more detail below, we believe that the
2 attributable owner information could be gathered
3 with some costs and process modifications in the
4 beginning, but could ultimately become a routine
5 part of our processes. We would emphasize that
6 stakeholders in the patent system, large and
7 small, have a responsibility to the public to
8 ensure that the patent system works as effectively
9 as it possibly can. Though there will inevitably
10 be some additional costs in identifying and
11 providing the information, it's our view that it's
12 incumbent on all parties who benefit from the
13 patent system to shoulder some of the burdens in
14 ensuring that the system optimally serves its
15 intended purposes.

16 So I'd now like to turn to the section
17 of the proposed rules discussing the definition of
18 the attributable owner. And in our view, the
19 effectiveness of the rules will turn on the
20 precision of the definition of "attributable
21 owner" and we believe that this portion of the
22 proposal warrants the most discussion.

1 Section 1.271(a)(1) of the proposal
2 identifies titleholders as "an entity that
3 exclusively or jointly has been assigned title to
4 the patent or application." In our view,
5 ownership is an almost always straightforward
6 question and we believe that this section would be
7 relatively simple to comply with.

8 Section 1.271(a)(2) refers to entities
9 necessary for a lawsuit and, in particular,
10 requires identification of an entity necessary to
11 be joined in a lawsuit in order to have standing
12 to enforce the patent or any patent resulting from
13 the application. The question of identifying
14 entities under Section (a)(2) is more complex and
15 ultimately turns on analysis of the terms of an
16 agreement to identify the bundle of rights that
17 has been transferred. We believe, though, that
18 this provision or some modification of this
19 language capturing enforcement entities is
20 critical for the rules to have any teeth. In the
21 absence of this provision, the public would be
22 unable to determine parties that could potentially

1 assert the patent other than the legal
2 titleholder, and this would leave room for parties
3 to continue to obscure ownership or enforcement
4 entities through contractual arrangements. As one
5 specific example, without this provision or some
6 variation, a privateer granted an exclusive
7 license could remain obscured.

8 The same can be said Section (c) of
9 1.274, which is similar and needed, in our view,
10 to prevent gamesmanship designed to obscure the
11 attributable owner.

12 Although this is, in fact, a
13 fact-specific inquiry, we've evaluated the
14 prospect of identifying the parties implicated
15 under Section (a)(2) with respect to our portfolio
16 and although HP has numerous exclusive licenses
17 granted from our IP holding company to other
18 subsidiaries, we could provide the requested
19 information with some modifications to our
20 processes.

21 HP uses a third-party service provider
22 to maintain a database with information on our

1 patent portfolio, which includes identifying
2 information, documents, and data on encumbrances
3 impacting particular patent assets, such as
4 exclusive licenses. And this data could be
5 accessed at each key checkpoint in the life cycle
6 to provide the attributable owner information.

7 It's also our view that it's really good
8 practice in the ordinary course of business for an
9 entity, whether they're large or small, to
10 understand the exclusive licenses that impact its
11 portfolio. As we noted at the -- and it really is
12 a key question, getting back to the idea that
13 entities should identify this information in the
14 ordinary course of business, it's a key question
15 for licensors that grant licenses to subsidiaries
16 to external parties. So, for example, if you're
17 granting an exclusive license, you really need to
18 know whether any other exclusive licenses have
19 already been granted and, if so, the impact these
20 prior licenses would have on the new license.

21 Existing encumbrances are also key
22 information for any entity that's involved in

1 monetization of its assets. So, for example, when
2 HP sells an application or patent, it's an
3 important step in our process to accurately
4 identify all encumbrances that impact each asset
5 so that the encumbrances can be released or passed
6 along to the purchaser with the purchaser's
7 knowledge.

8 Some parties have claimed that the
9 disclosures of the attributable owner information
10 would raise confidentiality concerns. From HP's
11 perspective with respect to our portfolio, this is
12 not a major concern. As with many corporations,
13 we provide licenses from our IP holding company to
14 subsidiaries and the existence of these entities
15 is not something we deem to be confidential. For
16 example, when royalties flow between these
17 subsidiaries, we are required by law to disclose
18 the existence of such entities to the tax
19 authorities and this is public information.

20 Section 1.271(b) refers to the ultimate
21 parent entity and, in particular, specifies that
22 the attributable owner also includes the ultimate

1 parent entity of any entity that qualifies under
2 Section (a). Again, we think that this section is
3 important to include and that the benefits of the
4 proposal mentioned above depend on the ability to
5 identify the party that ultimately controls the
6 actions of the identify entity. For example, when
7 the entity identified under Section (a) is a
8 subsidiary or shell company, the full benefits of
9 the proposal would only be attainable if the
10 corporate parent was also identifiable.

11 As we noted at the roundtable last year,
12 we believe that the ultimate parent entity will be
13 identified relatively easily in most cases. If
14 the entity identified in Section 1.271(a), for
15 example, is a company, the ultimate parent or
16 entity which is not controlled by any other entity
17 will be the highest level entity in the corporate
18 structure in the large majority of cases. This
19 entity's readily known or easily identified by the
20 applicant or patentee. If the entity is an
21 individual, it will simply be that person.

22 In most situations, we think that the

1 ultimate parent would remain constant, so the
2 determination of the ultimate parent entity will
3 need to be made at the beginning of the process
4 and confirmed at relatively infrequent intervals.
5 Also, the identification of the ultimate parent
6 entity will only need to be made once per entity,
7 not on a per asset level, so the costs of
8 providing this information are relatively minimal.

9 So having discussed the definition of
10 "attributable owner," I wanted to turn to the
11 timing of the disclosures and wanted to focus on
12 four main checkpoints.

13 We do continue to believe that the
14 information should be submitted at relatively
15 frequent intervals during pendency and after grant
16 to ensure that the attributable owner information
17 is current. As we advocated at the roundtable in
18 January of last year, most of the required
19 information could be submitted at key checkpoints
20 when the information could be provided in
21 conjunction with other submissions.

22 So again, I wanted to turn to four of

1 the checkpoints. I won't talk about all of them,
2 but wanted to focus on four, we believe, key
3 checkpoints in the process.

4 So the first is application filing.
5 When ownership of the application is a key
6 question, as assignments are obtained and a
7 practitioner determines whether the applicant will
8 be the inventors or an assignee, we would suggest
9 allowing applicants to provide this information in
10 an application data sheet or a newly created form
11 for providing this information. We also agree
12 with the proposed approach of mailing a notice of
13 missing parts when the attributable owner
14 information was omitted, as we think this would
15 minimize the potential for abandonment due to an
16 unintentional omission.

17 The second key checkpoint is when
18 ownership changes during pendency. And again, we
19 support this disclosure. As we noted last year at
20 the roundtable, whether it's in the form of a
21 purchase of a single patent or a merger or
22 acquisition with a portfolio of significant size,

1 a party will generally be well aware of the
2 implicated assets and could readily provide this
3 information to the PTO.

4 We would propose that the Office
5 consider expanding this section to include changes
6 to ownership after the patent grants. In our
7 view, if this provision were not included,
8 post-grant updates would be limited to maintenance
9 fee payments, PTAB proceedings, and some of the
10 other supplemental examination proceedings, which
11 could, in many cases -- which will be four years
12 between maintenance fee windows and, in some
13 cases, could be significantly more than four years
14 after the final maintenance fee payment. To us
15 this time period seems too long, especially in
16 quickly moving technology areas and because
17 parties often obtain rights to patents with the
18 intent of immediately asserting or licensing them.
19 We think this would warrant further investigation,
20 but we believe that the PTO arguably has the
21 rulemaking authority for this requirement
22 post-grant under USC Section 282, which indicates

1 that the PTO shall be responsible for
2 disseminating to the public information with
3 respect to patents.

4 And when ownership changes, whether it's
5 during pendency or after the patent grants, the
6 information could be provided using the newly
7 created form I mentioned above or using an
8 automated system for bulk uploads, which I'll talk
9 a little bit in more detail later in my remarks.

10 So the third key checkpoint I wanted to
11 talk about is the time an application is allowed.
12 At the time of allowance, ownership is examined,
13 determined whether the issue fee should be paid,
14 and whether the assignee will be listed on the
15 face of the patent. The attributable owner
16 information could be provided concurrently with
17 the issue fee payment via submission of the new
18 form or, alternatively, by modifying the issue fee
19 transmittal form.

20 And finally, the fourth checkpoint that
21 I wanted to spend a fair amount of time on is
22 payment of maintenance fees. Again, a patent

1 owner will only pay maintenance fees for patents
2 it owns, so it would be a natural point in time to
3 confirm or provide attributable owner information.
4 We would recommend that the PTO consider a few
5 changes to this section.

6 First of all, we would suggest that the
7 PTO consider modifying the language "prior to the
8 date the maintenance fee is paid," to "prior to or
9 concurrently with payment of the maintenance fee."
10 In our view, this is needed to allow for updates
11 of the information at the same time as the
12 payment, such as when the information is provided
13 by a third party payment service.

14 And the second change HP would suggest
15 is to consider specifying a penalty for failure to
16 provide the information with maintenance fees. In
17 our view, allowing the patent to lapse in these
18 situations would be consistent with the penalties
19 in the other sections of the rules.

20 One key aspect of updating information
21 at the time of payment of maintenance fees is to
22 allow third-party service providers to make updates

1 on behalf of a patent owner. We understand from
2 conversations with our service provider that the
3 PTO is considering a project that would modify the
4 storefront to allow patent owners or their
5 designees to upload a data file for bulk payment
6 of maintenance fees. And in our view, a natural
7 extension of this proposal is to allow these data
8 files to also specify a list of entities that
9 qualify under Section (a) and for each of those
10 entities the ultimate parent entity as well.

11 For HP specifically, we would need to
12 investigate this further, but we would envision
13 our service provider pulling the necessary data
14 from our databases directly, generating the data
15 file in the required format, and then uploading
16 this information with the payment. And we also
17 believe that the method of uploading a data file
18 could be naturally extended to allow assignees to
19 make bulk updates at other times, such as during
20 pendency and after grant.

21 One final point in terms of the
22 disclosures is that the notice solicited input on

1 whether three months is sufficient time to provide
2 the requested information. And in our view, we
3 think it is, assuming that a method is provided
4 for bulk uploads of attributable owner information
5 for large ownership changes.

6 So, in conclusion, HP believes that
7 ownership transparency is a key characteristic of
8 an optimal patent system and that implementing the
9 proposal would provide benefits to the public, the
10 USPTO, and to key stakeholders. We would again
11 emphasize that stakeholders in the patent system,
12 both large and small, have a responsibility to the
13 public to ensure that the patent system works as
14 effectively as it can. In our view, though
15 complying with these rules would require some
16 changes in our processes and incur some additional
17 costs, we believe the benefits outweigh the costs
18 and are willing to do our part.

19 Again, we appreciate the opportunity to
20 speak at this hearing today and we look forward to
21 collaborating with the USPTO on the path to
22 implementation of these rules. Thank you.

1 MS. GONGOLA: Thank you very much, Mr.
2 Pojunas. Our third witness at our hearing is Herb
3 Wamsley, who is presenting on behalf of the
4 Intellectual Property Owners Association.

5 MR. WAMSLEY: Well, thank you very much.
6 I appreciate the opportunity to be here today to
7 speak on behalf of Intellectual Property Owners
8 Association.

9 These rules are a very important
10 proposal. The rules, as you know, have a lot of
11 history. I was in this room, I believe, a little
12 over a year ago, speaking on a roundtable and IPO
13 wrote a letter for the record in January 2013. We
14 also wrote a letter for the record a year before
15 that in 2012.

16 The comments that I'm making today are
17 preliminary IPO comments. We plan to submit our
18 final detailed written comments by the deadline of
19 April 24. And as often happens in a large
20 association, it takes us a while to collect the
21 views of our members and our 50-member board of
22 directors on which Curt Rose of HP is one of the

1 50 members; is meeting again here in Washington in
2 2 weeks to consider these rules further. So these
3 are preliminary comments based on the past
4 positions we've taken and based on consideration
5 that we've given to legislation pending in
6 Congress that was introduced since the last
7 roundtable on the rules.

8 Now, IPO is an association that
9 represents companies and individuals in diverse
10 industries and fields of technology, and they are
11 companies who own or are interested in IP rights.
12 They are companies that generally own patents, but
13 also often are defendants in patent infringement
14 suits. Our members include more than 200
15 companies and more than 12,000 individuals who are
16 involved through their companies or as law firms
17 or individual IPO members.

18 Now, I am coming at this from a
19 different direction than my two fellow witnesses
20 who just spoke. I believe that they are trying to
21 improve the proposals that have been put out there
22 and I am suggesting that the Patent and Trademark

1 Office needs to go back to the drawing board on
2 these rules in a more fundamental way. So I'm
3 going to be speaking not so much to the specifics
4 of the rules as proposed, although I will come to
5 a few specifics later, but to our broader concerns
6 about the effects on innovation in the United
7 States and, in the long term, on United States'
8 economy from requiring such comprehensive and
9 far-reaching additional disclosure of patent
10 ownership information. Although, as I will come
11 to, we do support some increase in the amount of
12 information beyond what is required today under
13 the recording rules under 35 USC 252 and 261.

14 Now, we agree that identification of
15 attributable owner information may be useful in
16 certain circumstances in reducing abusive patent
17 litigation by helping businesses defend themselves
18 against frivolous patent infringement suits. This
19 is one of five objectives mentioned in your
20 Federal Register notice and, in our view, this is
21 the central objective that you should be looking
22 at in formulating the rules: Helping businesses

1 defend themselves against frivolous patent
2 infringement suits.

3 The other objectives listed in the
4 notice, including the objective of providing the
5 public with more complete information about the
6 competitive environment in which innovators
7 operate are problematic, we suggest.

8 Now, first of all, I'd like to talk
9 about the need to protect confidential business,
10 financial, and technological information in
11 companies. Legitimate business interests in
12 protecting the confidential information of
13 ownership and license information needs to be
14 considered very carefully. Fewer than 10 percent
15 of granted patents do not have recorded
16 assignments at the time of grant we were told at
17 the PTO roundtable last year. So at first glance,
18 at least it appears that the incentives provided
19 by existing Section 261 of the Patent Act seem to
20 be working to provide the basic titleholder
21 information to the public at the time of the grant
22 in most cases.

1 We believe imposing rules to require
2 more disclosure by the general public and all
3 patent applications and all patents will require
4 disclosure of information that companies regard as
5 business confidential in many cases. Entities may
6 not want competitors to know immediately that they
7 have transferred or acquired ownership interests
8 in specific patent applications or patents.

9 Intercompany transfers may give strategic
10 information about R&D investments, R&D and
11 commercialization priorities. Also, transfers may
12 not be between companies that are independent of
13 each other but between subsidiaries within a
14 company for legitimate business reasons, including
15 tax considerations.

16 In IPO, in compiling our annual list of
17 the top companies receiving patents each year,
18 those companies that receive the most patents, we
19 count patents held by subsidiaries as well as
20 those granted in the names of parents. We have
21 found that in some large companies the companies
22 hold their patents in more than 100 subsidiaries.

1 The transfers between these subsidiaries may
2 reveal the line of business in which a patent is
3 considered relevant or the state of
4 commercialization of a technology. Assignees may
5 not want others to be aware of the development --
6 their development and commercialization pace of a
7 technology in real time.

8 Also, patent applicants or owners may
9 not want competitors to know whether an
10 application or patent has been licensed or to
11 whom. Such information may be an indicator of R&D
12 or commercialization plans.

13 Three weeks ago, IPO testified at a
14 hearing in the Office of the United States Trade
15 Representative about the need for stronger trade
16 secret protection laws in the United States and
17 around the world. Trade secrets information
18 includes financial and business information as
19 well as invention information. The IPO board of
20 directors has voted to support legislation that we
21 believe will be forthcoming in the U.S. Congress
22 to create a federal civil cause of action for

1 trade secret misappropriation in the United
2 States, and we hope that that will be legislation
3 that will be followed around the world.

4 So in short, we believe elimination of
5 confidentiality for ownership information could
6 discourage patenting and make strategic
7 information available to foreign competitors of
8 the United States. I am not aware of any country
9 that requires patent ownership information in the
10 detail that's required by these proposed rules.
11 We wonder whether it's necessary to make this
12 information available for all to see worldwide and
13 all patents and patent applications -- that is in
14 all patents and patent applications considering
15 that somewhere around 2 percent of granted patents
16 are ever litigated.

17 Now moving on to expense, this was
18 discussed quite a bit in the roundtable last year.
19 The benefits of knowing how owns the patent at
20 every point in time need to be weighed against the
21 significant expense that the proposed rules would
22 impose on applicants and owners. I think it's

1 important to know every potential burden to
2 understand the reach of the PTO's proposal. We
3 will, I anticipate, outlining more detail of the
4 expense burdens of the rules when we file our
5 final written comments by April 24th.

6 I would say in addition to the expense
7 burden of gathering the information, the
8 consequences of failing to identify the
9 attributable owner as proposed in these rules
10 appear to be draconian. Last year, we commented
11 that we were opposed to abandonment or invalidity
12 as the consequence for failure to identify
13 ownership. Our board of directors will look at
14 this again on March 26th, but I believe that
15 that's where we'll probably still come out, I
16 would guess. We're also concerned and we raised
17 in previous letters that a failure to identify the
18 owner could lead to a charge of inequitable
19 conduct or result in attorney suspension or
20 disbarment.

21 Third, I would say that the Federal
22 Register notice, in my view, still does not

1 adequately explain the need for such far-reaching
2 changes in the requirements for ownership. Any
3 change in ownership before the 18-month
4 publication of the patent application will not be
5 available to benefit the public because the public
6 won't have access to changes made before
7 publication. If ownership information is needed
8 for examination, parties probably already have a
9 duty to report materials changes to the Patent and
10 Trademark Office. Ownership information,
11 including the identity of the highest level
12 parent, already must be disclosed in most Federal
13 Courts when a suit is filed or an appeal is taken.

14 As we noted last year, we think the PTO
15 should continue to investigate whether it has the
16 statutory authority to require patent ownership
17 information of the extent provided for in these
18 rules. Congress has determined that providing
19 patent ownership information to the PTO is
20 optional and has set forth the consequence for
21 failing to record assignments. It's true that the
22 PTO has other authority under 35 USC Section

1 2(a)(2) for disseminating information, but we
2 wonder if that is separate from the PTO's
3 responsibility for granting and issuing patents.
4 Dissemination may just refer to relaying
5 information on hand and not collecting additional
6 information.

7 Now, having expressed these serious
8 concerns about the rules as proposed, let me
9 emphasize that attributable owner information will
10 help some parties who are being subjected to
11 frivolous patent infringement suits. IPO has said
12 in the past, and I believe we will continue to
13 advocate, that more ownership information should
14 be required, either by rule or by legislation.

15 IPO is supporting appropriate
16 transparency proposals in connection with patent
17 litigation reform legislation now in Congress.
18 We're also supporting attorney fee shifting,
19 heightened pleading standards, and stays of
20 infringement suits against end users as ways to
21 curb abusive patent litigation.

22 We agree that attributable ownership

1 identification in the legislation or rules should
2 include the highest level parent in a corporate
3 organization. We report this requirement even
4 though obtaining accurate information may be
5 difficult in some circumstances. For example, to
6 identify the ultimate parent entity, a patent
7 practitioner may need to research corporate laws
8 or corporate structures. The structures of IP
9 transactions may be very complex and involve
10 numerous parties, including co- owners and
11 licensees, who may or may not hold all substantial
12 rights. Sometimes practitioners may be required
13 to analyze foreign laws, conflicts between U.S.
14 and foreign law.

15 Well, moving toward the end of my
16 comments, I would say that while there is a
17 problem here to be solved, certainly with abusive
18 patent litigation, we believe, we wonder if the
19 best approach would be for the requirement to
20 identify attributable owners to be triggered only
21 when a suit is filed. To be triggered only when a
22 suit is filed. That would mean that we would be

1 burdening maybe 2 percent as many patent owners.
2 Now, when a suit is filed, the patent owner could
3 be required to provide ownership information to
4 the PTO and to keep it updated, as well as
5 providing that information to the court and to the
6 litigation parties.

7 We also wonder whether the PTO should
8 undertake rulemaking before Congress passes patent
9 litigation reform legislation. I'm advised today
10 that the Senate Judiciary Committee may take up
11 Senator Leahy's bill as early as April 2nd. The
12 House of Representatives has already passed
13 Chairman Goodlatte's bill, H.R. 3309. It seems to
14 us that some of these issues may be best dealt
15 with by legislation. For example, legislation can
16 give Congress discretion to keep confidential
17 business information under seal when necessary to
18 avoid undesirable access to U.S. and foreign
19 companies.

20 Also, Congress has brought authority to
21 craft penalties for failing to disclose
22 attributable owner information. One of the

1 pending bills would do this by denying treble
2 damages or attorneys' fees to a patent owner who
3 failed to comply with disclosure requirements, and
4 require the patent owner to pay the defendants'
5 attorneys' fees for the cost of discovery to
6 obtain ownership information that should have been
7 disclosed automatically. These kinds of sanctions
8 can be fashioned through legislation.

9 While we haven't endorsed any of the
10 specific bills, I would note that the ownership
11 transparency provisions in Chairman Leahy's bill,
12 S. 1720, and Chairman Goodlatte's bill, H.R. 3309,
13 are simpler and less expensive than the disclosure
14 requirements in the rules being proposed by the
15 PTO. And in both of those bills the disclosure of
16 the attributable ownership information, to use the
17 PTO term, is triggered by the filing of a suit.
18 And I believe in both of those bills once the
19 disclosure is triggered, from that point on the
20 patent owner is required to disclose and update
21 the information to the PTO as well as to the
22 courts and the parties.

1 In conclusion, I'd say that, in the end,
2 the rules or legislation that are adopted need to
3 be innovator- friendly. I think these rules have
4 a long way to go to be made innovator-friendly.

5 Thank you for the opportunity to make
6 these comments and we look forward to the further
7 opportunity to file our written comments by April
8 24. Thank you.

9 MS. GONGOLA: Thank you very much, Mr.
10 Wamsley. Our fourth witness today is Raymond Van
11 Dyke, who is presenting on behalf of the Inventor
12 Network of the Capital Area.

13 MR. VAN DYKE: Okay. First, I want to
14 thank Janet Gongola, Bob Bahr, Drew Hirshfeld --
15 he's spoken on the phone -- and others at the
16 Patent Office here for allowing me to speak on
17 behalf of the Inventor Network of the Capital
18 Area, also known as INCA.

19 INCA is a nonprofit educational
20 organization founded in 1993, with an interest in
21 providing information regarding patents, the
22 innovation process, marketing, licensing, and

1 other endeavors. I myself am a patent
2 practitioner since 1990, and I'm fairly active in
3 a variety of legal organizations, particularly
4 here in the Washington, D.C., area, the Licensing
5 Executive Society, where I am the greater
6 Washington, D.C., chair. I'm also a member of
7 INCA, and the members have asked that I raise
8 their concerns with regard to this rulemaking.

9 These are laudable goals set forth by
10 the administration and to transparency in
11 litigation and things like that. These are very
12 laudable goals. But generally, the INCA members
13 have grave concerns about the ongoing attacks on
14 our patent system and the U.S. Patent and
15 Trademark Office. In our view, the patent system
16 is under assault from a variety of sectors:
17 Lobbyists, biased academics, and pundits and
18 others with no regard to our founder's intention
19 to promote innovation in our great nation.

20 Certainly behavior of some litigants in
21 lawsuits and the threat of lawsuits can be
22 inappropriate, but the courts are already equipped

1 to deal with frivolous lawsuits without further
2 legislation of this sort. Nonetheless, there is a
3 frenzy in the air that our patent system has again
4 run amok and something must be done, so sayeth
5 Obama. Hence, we are all here today.

6 Even though the USPTO has made an effort
7 to combat the troll situation in this proposed
8 rulemaking, INCA, myself, and many practitioners,
9 patent professionals, consider the proposed rules
10 entirely unnecessary, seriously onerous, and
11 punitive to the innovation process. Based on my
12 own experience and that of others, we think the
13 entire proposal is not tenable and should be
14 scrapped.

15 The reasons for our view are many and
16 manifest. A goal or justification for these rules
17 is that they assist a troll victim, that is a
18 recipient of an unwarranted or inappropriate
19 cease-and-desist letter. Even though these
20 recipients are fairly many, perhaps thousands
21 involving many -- perhaps hundreds -- no, maybe
22 thousands involving many hundreds of patents, that

1 number is miniscule compared to the millions of
2 active issued patents and the large number, well
3 over a million, of pending applications, not to
4 mention the half-million-plus new applications
5 each year. Any rule, as Herb suggests, much weigh
6 the benefit and the cost and the burden placed on
7 all applicants and all patent holders with the
8 benefits to the small number of aggrieved parties
9 however vocal. Also, as Herb mentioned, and
10 earlier today I hosted a lunch with Bernie Knight,
11 former general counsel here at the Patent Office,
12 there are concerns about the statutory authority
13 for this entire rulemaking.

14 The executive actions, however, driving
15 this notice include the need to ensure
16 high-quality patents and which is, of course, the
17 goal of the USPTO. However, is the new
18 requirement to provide attributable ownership
19 verification relevant to examiners in the
20 examination process? The examiner corps is
21 already burdened with their duties in examination
22 and don't need a distraction with information that

1 could be potentially biased.

2 Another initiative is to provide the
3 public with more information on the competitive
4 environment. Here, too, as Herb mentioned, this
5 would seem to demand that companies engaging in
6 competition, the heart of capitalism, must somehow
7 tip their hand, show their cards, their trade
8 secrets somehow. The corporate issues involved
9 with technology transfers, acquisitions,
10 divestitures, licensing, joint developments, and a
11 myriad of other ones do not need further
12 government meddling. Ayn Rand's Atlas Shrugged
13 showed the folly of such intervention in the
14 competitive process.

15 Patent ownership in these contexts is
16 hardly relevant to the goal of the act: The
17 reduction of the cease-and-desist letters and the
18 assistance to those victims. In patent practice
19 generally it is relatively easy to determine who
20 is the owner of a patent in almost all instances
21 except for perhaps some of these few in the troll
22 context.

1 Of course, the laudable goal of reducing
2 abusive patent litigation and frivolous suits is a
3 good one and a necessary one, but it's unclear to
4 INCA and others how this rulemaking package
5 addresses that rule -- that goal. Just because a
6 rule says it's so does not make it so.

7 The final justification for these new
8 rules is the apparent need to level the playing
9 field for innovators. I guess it all depends on
10 who is the innovator. On behalf of INCA and many
11 of my clients, who are also innovators, we would
12 like the playing field leveled indeed. With the
13 passage of the AIA, the playing field tilted
14 heavily in favor of large corporations with deep
15 pockets and against the majority of patent --
16 smaller patent holders now faced with expensive
17 post-grant and other challenges to their patents.

18 It is clear, however, that the
19 innovators, in this context, who they are. They
20 are the companies receiving the cease-and-desist
21 letters that are unjustifiable or unwarranted.
22 For the rest -- which may be perhaps be -- my

1 stats show a much smaller percentage than Herb,
2 maybe .1 percent. Herb says 2 percent, so I'll
3 just assume it's 1 percent for the purpose of this
4 discussion. For the rest of the innovators, the
5 99 percent, this rulemaking package requests that
6 they give up some of their constitutionally
7 granted exclusive rights in leveling the playing
8 field. And again, Ayn Rand has some choice things
9 to say about that.

10 Turning now to the new nomenclature and
11 duties being imposed to implement the new rules,
12 as the slide said, what is an attributable owner?
13 Already we can determine simply if there's an
14 assignment on file. But apparently, determining
15 these titleholders is not enough. Now for each
16 titleholder you need to further assess all
17 enforcement entities, such as exclusive licensees
18 who would not be titleholders. Okay, but we are
19 not done.

20 For each entity we will also need to
21 assess and identify with precision all ultimate
22 parent entities. Here things escalate. A

1 corporation is not an ultimate parent entity
2 because they are not natural persons. Perhaps the
3 shareholders are, they are the ultimate owners;
4 similarly, all partners in a partnership, a board
5 of directors in a nonprofit, and we could go on.
6 But we are still not done.

7 Among all of these entities and persons
8 discussed so far, each much also be assessed as a
9 potential divesting entity, whatever that means.
10 Carol Oppedahl, in his comments to this rulemaking
11 which are available, goes through great pains to
12 discuss a variety of these corporate scenarios
13 involving attributable ownership issue, for
14 example, with foreign corporations, stock splits,
15 corporate reshufflings, and a variety of other
16 situations that are normal out there. He assesses
17 the cost of these analyses in the tens or perhaps
18 hundreds of thousands of dollars, not the \$100
19 that the government is assessing. Also, as Herb
20 mentioned, you know, this could impact trade
21 secrets and corporate strategy and a variety of
22 things that are inappropriate.

1 And the notice proposes regular such
2 assessments throughout the life of the patent
3 application and the issued patent. Potentially
4 every three months during pendency and at least at
5 each of the three months are the three maintenance
6 fee periods with a serious penalty, that is the
7 constructive or deemed abandonment of the
8 application or patent, three months after any
9 unreported change in the attributable ownership
10 list and the other categories. You know, there's
11 a silent or retroactive abrogation of the patent.
12 Thus we think the entire proposal should be
13 dismissed and that the proposed \$100 assessment is
14 not a real assessment.

15 Indeed, should these rules be
16 implemented with a serious burden and penalty in
17 place, a quite strict liability standard, all
18 patent holders -- the 99 percent -- and the troll
19 patent holders -- the 1 percent -- could lose
20 their patent for some inadvertently missed years
21 before. All of this uncertainty and potentially
22 huge burden will stifle startups and investment,

1 another casualty of these rules.

2 Talk about shifting the playing field,
3 litigators in all patent cases would pounce on any
4 discrepancy, any misstatement -- for example,
5 missing one shareholder -- any shade of gray in
6 determining an attributable owner, an enforcement
7 entity, an ultimate parent entity, a divesting
8 entity, and other information, all in an effort to
9 abrogate the patent at suit. Virtually all patent
10 holders would taste this bitterness. Judges would
11 be swamped with summary judgments and
12 interpretation of these terms. Every stock
13 option, corporate structure change, investor
14 changes, and other ever-shifting facts would be
15 scrutinized.

16 I myself have felt this kind of nonsense
17 with the stream of McKesson cases that came around
18 a few years ago. And I recently had a clear
19 typographical error that was the subject of an
20 entire summary judgment motion. If enacted, these
21 rules, our patent system will die the death of 3
22 million cuts. Litigants will be forced to employ

1 these tactics under the new rules because it would
2 be malpractice not to. A plague of litigation
3 could ensue, which would create further calls for
4 patent reform.

5 The solution? Well, transparency is a
6 reasonable goal, but reasonableness overall is
7 also key. The entire raison d'être for this rule
8 package is to address the advent of trolls: NPEs,
9 PAEs, and other evil actors. Herb, you know,
10 stole my thunder and everything. Why don't we
11 just condition the filing of any cease-and-desist
12 letter with the updating of the attributable
13 ownership? Address the problem at the event
14 horizon, so to speak. Go for the behavior that's
15 at issue and not to the detriment of everyone for
16 the bad behavior of the few.

17 There is no easy way -- or easy fix to
18 this inappropriate cease-and-desist letter
19 problem, but the solution is not here. The
20 proposed rulemaking is ill- advised, places an
21 inappropriate and enormous burden to every patent
22 holder and applicant, millions of individuals and

1 companies. Since the problem is during
2 litigation, the solution should be there, also.
3 The USPTO should not go there. This rulemaking
4 package is unwarranted, unjustified, and
5 unreasonable. It constitutes a serious punishment
6 to all inventors, all patentees, and all innocent
7 patent litigants. As a practitioner, any error in
8 this process from one of your own clients could
9 constitute grounds for malpractice.

10 Our patent system should not be burdened
11 with a rulemaking package imposing an unrealistic
12 goal. The consequences of this rulemaking are too
13 dire, the costs are too great, and the burden is
14 too much.

15 I want to thank you for allowing me the
16 chance to speak today on behalf of INCA.

17 MS. GONGOLA: Thank you very much, Mr.
18 Van Dyke. At this time, that concludes those who
19 have prescheduled to give testimony. And by a
20 show of hands, I'd like to ask the audience
21 whether there are any members who would now like
22 to give unscheduled testimony, if you could please

1 raise your hand.

2 Yes, we have three members of the
3 audience who would like to give unscheduled
4 testimony. So what I'd like to do now is to take
5 our 15-minute break. And during the break those
6 of you who would like to give further testimony,
7 if you could please see me so we can organize
8 ourselves. And then we will return about 3:05 to
9 resume our hearings with additional witness
10 testimony.

11 Thank you very much. We'll be back in
12 15 minutes.

13 (Recess)

14 MS. GONGOLA: Good afternoon and welcome
15 back to our attributable owner public hearing. We
16 are going to resume testimony from witnesses. Our
17 first witness following the break will be Rick
18 Neifeld on behalf of Neifeld IP Law.

19 MR. NEIFELD: Thank you, Janet. I
20 represent, since I'm the only here from the small
21 law firm community and almost the only one here
22 from the small inventor community, I represent the

1 small side of things.

2 And it's interesting what happened
3 during the break we just had before we resumed
4 this proceeding. I spoke with my colleague from
5 Hewlett-Packard and he was chatting with a couple
6 folks I'm looking at now. And I said to them, so
7 which side of this issue do you stand on? And
8 they said, well, we're from IBM, so that sort of
9 answers the question.

10 And then I asked the gentleman from
11 Hewlett-Packard, well, how many cases are you
12 talking about? How many patents? How many
13 applications? And the answer was thousands to
14 tens of thousands. If you recall from his
15 testimony, he said that they would be able to
16 institute a procedure internally for uploading
17 their database structure to their service provider
18 to pay for the fees.

19 Okay. Most of the people that get
20 patents that I deal with, their organizations have
21 less people in them than HP's representative had
22 in their patent department, so there's a

1 difference here. Everyone I know who's on the
2 small side of things, who would have to comply
3 with this on a patent-by-patent basis, and that
4 includes every small IP law firm in this country
5 and most of those around the world, will not be
6 able to do that. There is a cost, a real cost, to
7 complying with the proposed rules, and it is not
8 de minimis. It's hundreds of millions to billions
9 of dollars per year.

10 Unlike the Patent Office rules -- unlike
11 the assertions of fact in the proposed rules about
12 the cost of compliance, I provided the Patent
13 Office with data from the statistics provided by
14 the AIPLA's annual survey of cost for doing
15 things. And I showed them in a very clear and
16 factual basis what the cost would be to comply for
17 each individual action, and the cost of compliance
18 per year would have been a lot. It's not the de
19 minimis amount that the big companies might be
20 able to get away with because they have certain
21 economies of scale. Even for those large
22 companies, there's costs for programming database

1 compliance and other things. So the costs are not
2 what the Patent Office says.

3 The issue is, in a large sense, a split
4 between the large electrical-mechanical players in
5 the field, the large companies on the all type of
6 industrial side versus the small people and
7 perhaps the (inaudible) people on the other side,
8 there's a real split. But any way you think about
9 it, the cost, going through the process of
10 complying with the proposed rules, is very large,
11 and that's the point I wanted to make.

12 Thank you.

13 MS. GONGOLA: Thank you very much, Mr.
14 Neifeld. Our next witness is Robert Hardy, who's
15 here on behalf of the Council on Government
16 Relations.

17 MR. HARDY: Thanks, Janet. Excuse me.
18 I'm Robert Hardy. I'm director of contracts and
19 intellectual property management at the Council on
20 Governmental Relations. We are an association of
21 189 research universities and some affiliated
22 research institutes and hospitals. And I should

1 say we represent institutional management and not
2 the views of individual academics or researchers.

3 We look at these types of regulations
4 primarily from the perspective of the ability of
5 our institutions to commercialize their inventions
6 and deliver our discoveries to the private sector
7 for the benefit of the public. And as other
8 witnesses have mentioned, we have some preliminary
9 comments and we will be following up with some
10 formal comments by the comment deadline. And I'd
11 like to express five concerns at this time that we
12 have identified with respect to the proposed rule.

13 The first is we're concerned that the
14 requirement to disclose exclusive licensees may
15 have a chilling effect on our ability to
16 commercialize inventions. Very often the
17 experience of our member institutions has been
18 that in order to license inventions, the licensee
19 insists on holding the license confidential and
20 many of our licenses have confidentiality terms.
21 So while this is by no means in 100 percent of the
22 cases, it is a significant number of cases where

1 this occurs.

2 And there's a further problem here in
3 that the requirement is triggered by payment of
4 maintenance fees, which means that it's
5 retroactive. And this could put us in breach of
6 confidentiality commitments that we have made in
7 existing licenses. And I think the reasons for
8 the confidentiality have been well expressed by
9 previous witnesses and it simply is the case that
10 many of the companies we deal with do not want the
11 fact of the license to be made known for
12 competitive reasons and strategic business
13 reasons.

14 The second issue that we have identified
15 with the NPRM is that the enforcement entity
16 requirement in 2(a) is phrased in terms of
17 standing to sue. In our view, standing to sue
18 really is a conclusion of law for the courts and
19 not necessarily for the PTO. We think this
20 probably could be fixed, but we think that
21 probably to the extent that that's specified, it
22 should be in terms of the bundle of specific

1 rights that might be transferred and not by the
2 concept of standing.

3 The third issue that we have at this
4 time identified, and this has been expressed by
5 previous speakers, is the concern about the burden
6 and cost of compliance that this would occasion
7 our institution, especially with regard to
8 identify ultimate parent entities. As has been
9 expressed before, that involves determinations of
10 corporate structures and corporate transactions
11 that we typically might not be privy to, and this
12 could put us in a situation of inadvertently
13 noncompliance. And even though this could be
14 cured by a good faith petition, again, this has
15 cost and burden implications for us.

16 The fourth issue, and this is an issue
17 that you may not hear expressed by others, is that
18 the exception to the disclosure requirement for
19 state agencies might apply in some cases to state
20 universities because some state universities under
21 the law of the particular state are state agencies
22 from a standpoint of legal entity. And that then

1 raises the specter of an uneven playing field
2 between those state institutions that are, in
3 fact, state agencies, agencies of the state, and
4 other public and private institutions that don't
5 have that status.

6 And then the fifth issue I think we
7 would like to put out there is that we do think,
8 as at least one other speaker has expressed, that
9 given the pending legislative action in the
10 Congress, it seems to us that it's premature for
11 PTO at this time to be putting out proposed rules.
12 And we think it would really be much more
13 advisable to wait out the legislative process
14 before proceeding with rulemaking on this matter.

15 So those are our preliminary comments.
16 We value the good working relationship we have
17 with PTO and we look forward to working further
18 with you as the process continues. Thank you.

19 MS. GONGOLA: Thank you very much, Mr.
20 Hardy. Our third witness is Morgan Reed on behalf
21 of the Association for Competitive Technology.

22 MR. REED: Good afternoon. Hopefully,

1 we'll make this fast. My name is Morgan Reed with
2 the Association for Competitive Technology, and we
3 represent over 5,000 companies that make the
4 mobile ecosystem that you all love work.

5 Now, it's worth noting that the vast
6 majority of my members are not inventors. They
7 are, in fact, innovators. But we have a small
8 subset that do include those who file patents and
9 for whom the next great, amazing shift is coming
10 from their basement lair, hopefully. And that
11 will be the invention that will be filed for a
12 patent and that will result in a change in our
13 entire, hopefully, lifestyle.

14 And so, when I listened earlier today,
15 you know, at first I thought this was great
16 hearing how we're moving forward on how do we fix
17 RPI, but something Charles Duan said at the
18 beginning really caught my attention. And I want
19 to make it clear that ACT and our folks all
20 support improving real party and interest notice.
21 But Charles said something I think we all should
22 remember. He started off by saying, you know,

1 this is great for competitors to learn about their
2 business choices so they can move forward, not
3 that companies can learn how to execute something
4 and learn from the knowledge that's put into the
5 patent system. Because what I realized he was
6 saying is he was breaking the dichotomy we all
7 agree to here at the Patent Office, and that is I
8 teach you how to do something in exchange for a
9 right.

10 What Charles was expressing is
11 competitors want to see what you're up to so that
12 I can make a competition decision, not learn from
13 that. And I think that's the really important
14 part that we have to look at on this RPI question.
15 If we're going to move forward with more
16 transparency, how do we do it in a way that
17 doesn't result in the outcome that Charles was
18 describing, which is, awesome, I get to learn what
19 my competitor is doing before they do it, but
20 results in me saying my competitor has done
21 something inventive, maybe I should take a
22 license?

1 And so I think we have to look at what
2 Goodlatte is putting forth in his legislation
3 right now and that we've heard several speakers
4 on, that is a more scalpel-like maneuver as we
5 address this question of how do we get to more
6 transparency and an improved environment;
7 something that allows businesses to make a
8 conscious choice about what they disclose and
9 when, and understand the consequences of not
10 disclosing in terms of good old-fashioned money.
11 As you'll note from the Goodlatte legislation, he
12 says no trebled damages, so that you have an
13 opportunity to make a choice about your
14 transparency in a way that affects your bottom
15 line, but preserves that original Patent Office
16 purpose, right, to teach you how to do something
17 that no one has ever thought of before: New,
18 useful, and non-obvious.

19 And what I don't want to see is an RPI
20 procedure that results in the world that Charles
21 described, which is competitors rushing to assist
22 and to learn what their competition is doing so

1 they don't have to spend the R&D money. I want
2 everyone to try to advance the state of the art,
3 not solely wait for someone else to do the work
4 and figure out how to do it on top of them.

5 So as we move forward on the RPI, I hope
6 the Patent Office will look to Goodlatte's
7 legislation as advice, possibly holding to see how
8 that resolves. But look for a more scalpel-like
9 solution that increases transparency, but doesn't
10 harm those who are truly innovating.

11 Thank you very much.

12 MS. GONGOLA: Thank you very much, Mr.
13 Reed. Our next witness is Tim Sparapani, who is
14 presenting today on behalf of the App Developer
15 Alliance and the Main Street Patent Coalition.

16 MR. SPARAPANI: Good afternoon. Hi. My
17 name is Tim Sparapani. I'm here on behalf of a
18 really quite large and diverse set of interests
19 involved in the patent system.

20 First, I speak in my capacity as vice
21 president for the Application Developers Alliance.
22 Like the previous speaker, we, too, represent the

1 app ecosystem. We have 35,000 members who have
2 joined us in the 26 months we've been around.
3 They are the people who are building apps
4 worldwide. We have 170 companies who are also
5 corporate members. They are mostly dev shops,
6 i.e., they are people who build apps for other
7 people. And so, as Morgan was just saying, we are
8 typically not the inventors. We are typically the
9 innovators. And so we have a great stake in the
10 outcome of this debate.

11 I also speak on behalf of the Main
12 Street Patent Coalition, a relatively new
13 organization, representing an extraordinary
14 collection of small businesses around the United
15 States who have been burdened by the current
16 abuses of the patent system that have been given
17 the nomenclature of "trolls." Members of the Main
18 Street Patent Coalition include virtually every
19 small business in America. By that I mean, the
20 National Restaurant Association, the National
21 Retail Federation, the American Hotel and Lodging
22 Association, the U.S. Travel Association, the real

1 estate licensing folks, the Credit Union National
2 Association, the American Bankers Association, the
3 Small Business Majority, the Latino Coalition
4 representing a separate 1 million small businesses
5 around the United States, and so on and so forth.
6 I could list another dozen members, the Printing
7 Industry Association, and so on and so forth.

8 These groups have come together because
9 they have seen and experienced extraordinary
10 abuses of a system which the Patent Office is
11 committed to putting in place. And given the
12 extraordinary abuses that they have witnessed and
13 they have been subject to, they have become
14 experts, against their better judgment, in the
15 patent system. These are not businesses who have
16 been folks who have come here and filed patents.
17 Most of them have never even seen a patent until
18 the last several years. And when they have
19 experienced the patent system, it has been on the
20 losing side of it because they have received
21 unfortunate requests with very little information
22 from shadowy partners -- parties, who are asking

1 them for large sums of money for patents that they
2 almost certainly did not ever infringe.

3 As a result, they have come to ask for
4 four types of reform. One of them, most
5 importantly, is transparency. And it is
6 transparency particularly for the small businesses
7 that they represent -- coffee shops, restaurants,
8 credit unions, banks, et cetera -- throughout
9 every city in America. That will give these
10 business the ability to evaluate whether or not
11 the patent that they are allegedly infringing is
12 one they have actually infringed and, if so,
13 whether they should engage in a legitimate
14 licensing conversation, which we think would
15 actually benefit the actual patent holders by
16 speeding up the process of actual negotiation if,
17 in fact, there is a true infringement; or whether
18 or not they should seek legal counsel and, if so,
19 whether the legal counsel they should seek should
20 be prepared to engage in litigation because there
21 was a likely infringement or because there was
22 not. And more importantly, they would love to

1 know who the parties are in fact who are making
2 the claims that they have infringed.

3 So let me make for quick points. One,
4 we believe that reform is urgently needed for real
5 party and interest. It is just absolutely
6 essential that you give America's small businesses
7 immediate access to very basic information about
8 who it is that is actually alleging an
9 infringement and insisting upon a payment. It's
10 very basic. It's crazy to think that we live in a
11 world where you can demand money from people, from
12 small businesses, and not tell them who you are or
13 why you were there. And that's the situation
14 these small businesses across America find
15 themselves in. It's maddening.

16 Secondly, this reform is common sense.
17 It should be clear that simply being able to
18 identify who, in fact, would benefit from your
19 paying a licensing agreement, engaging in
20 commerce, or settling an alleged infringement, it
21 just should be obvious that that information
22 should be imparted. And we have real trouble in

1 the face of these clear abuses understanding why
2 there's opposition to simply telling people who it
3 is, who's on the other side of a demand.

4 Third, there have been claims, I think
5 they're specious, and I say this as a former ACLU
6 lawyer who practiced First Amendment law for more
7 than a dozen years. There have been claims that
8 are First Amendment abuses, that there would be
9 Noerr-Pennington doctrine problems raised by the
10 Patent and Trademark Office's proposed rule. I
11 think this is a specious claim. I've had any
12 number of our constitutional lawyers who are
13 friends with, who are my former colleagues at the
14 ACLU in private practice look at this, and they
15 have all reached the conclusion that simply
16 mandating more information, the kind of
17 transparency that the PTO has suggested, would be
18 infringing on a First Amendment right to be
19 specious at best. Ridiculous might be another way
20 to put it. And I would put my stamp as a First
21 Amendment practicing lawyer on that statement. I
22 think this claim is baseless.

1 And then fourth, I would like to make
2 the broad point that because of the extraordinary
3 grant of power, a constitutionally granted power
4 that is given to a patent owner when they receive
5 a patent, that it is quite obvious to me that
6 there should come with that great power, great
7 responsibility. And because of the clear abuses
8 that we have seen over the last several years and
9 the multiplicity of patent trolls and their
10 activity level, that it should be only right and
11 just that those people who are granted a patent
12 should have the bare minimum responsibility of at
13 least giving you the good graces of telling you
14 who they are when they insist on a check. That
15 does not seem like an exceptional response to us
16 when -- the PTO has made given the enormous
17 monopoly power that is granted with a patent.

18 So we would urge a swift enactment of
19 the rules which you have proposed. We are
20 wholeheartedly supportive of them. We think they
21 are welcome and overdue. We do not think -- and I
22 will make this fifth point -- that the PTO needs

1 to wait for Congress to act because Congress may
2 never act. And yet, every day we have businesses
3 from across these coalitions that are literally
4 going out of business because they do not know who
5 is on the other end of a demand that's being made
6 to them.

7 So I'll stop there. I want to say thank
8 you again for the opportunity to speak. I am,
9 again, encouraged, the rapid implementation of
10 your rule. Thank you so much.

11 MS. GONGOLA: Thank you very much, Mr.
12 Sparapani.

13 (Whereupon, the PROCEEDINGS were
14 adjourned.)

15 * * * * *

16

17

18

19

20

21

22

1 CERTIFICATE OF NOTARY PUBLIC

2 COMMONWEALTH OF VIRGINIA

3 I, Carleton J. Anderson, III, notary
4 public in and for the Commonwealth of Virginia, do
5 hereby certify that the forgoing PROCEEDING was
6 duly recorded and thereafter reduced to print under
7 my direction; that the witnesses were sworn to tell
8 the truth under penalty of perjury; that said
9 transcript is a true record of the testimony given
10 by witnesses; that I am neither counsel for,
11 related to, nor employed by any of the parties to
12 the action in which this proceeding was called;
13 and, furthermore, that I am not a relative or
14 employee of any attorney or counsel employed by the
15 parties hereto, nor financially or otherwise
16 interested in the outcome of this action.

17

18 (Signature and Seal on File)

19 Notary Public, in and for the Commonwealth of
20 Virginia

21 My Commission Expires: November 30, 2016

22 Notary Public Number 351998