



April 24, 2014

Deputy Director Michelle K. Lee
Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director for the United States Patent and Trademark Office
United States Patent and Trademark Office
Mail Stop Comments – Patents
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Sent Via Email: AC90.comments@uspto.gov

Deputy Under Secretary Lee:

Thank you for the opportunity to submit views to the United States Patent and Trademark Office (USPTO) regarding the request for comments on the proposed changes to the rules of practice around disclosure of patent ownership.

ACT | the App Association has 5,000 startups and small business members around the world. Since 1998, ACT has worked to advocate for the needs of small tech businesses and software developers. ACT fully supports requiring additional transparency around attributable owner rules. Transparency is incredibly important to combat patent trolls and shorten patent litigation generally. However, we have concerns that the existing proposal could have unintended consequences for startups and small firms focused on innovation.

Importance of Transparency

Transparency in ownership of patents could have a positive effect on small businesses engaged in innovation. Our members are without the financial resources to retain legal departments, and they rely on a stable and predictable environment in which to build their businesses. Where transparency of patent ownership can provide stability, it serves to foster the small business environment.

Transparency will also serve to decrease the destructive power patent trolls have had on our industry. Patent trolls are a real threat to our members and use of shell companies to hide ownership of patents makes fighting litigation against bogus patents much more difficult. When our members win litigation against trolls, they often find any damages or attorney's fees awarded to them not paid, as the shell company used to sue them contains no assets.

ACT has worked to create useful transparency in patent ownership. In 2013, ACT worked with House Judiciary Committee Chairman Goodlatte and supported passage of H.R. 3309, the Innovation Act. This Act contained provisions which would require greater transparency of patent

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ownership in litigation. ACT has supported similar provisions in the legislation currently being considered by the United States Senate.

Weighing Burden with Benefits

The benefit of requiring transparency with patent ownership is that it provides notice as to who owns the interest in an individual patent. Too often, patent trolls take advantage of the lack of transparency to bring suits against businesses who have no way of knowing who they are actually facing. Knowing the real party of interest would allow those facing patent trolls to more clearly evaluate their options, find previous suits brought by this party, and better and more quickly present a defense.

As published, the proposed rules require ownership and power of attorney disclosure during the filing period of a patent. The benefit of transparency, however, is not equal to the burden this requirement will place on individuals and businesses applying for patents, and on the innovation economy generally.

Companies and researchers take enormous risks, invest in long-term R&D, and are building the technologies on which the next wave of innovation will ride. Expanding attributable owner rules at the filing stage could make it more difficult for those companies to raise capital and find partners for potential commercialization. The most likely investors for these startups are strategic investors tied to larger companies, often companies who are not currently working on similar technology. These strategic investors are considering the potential for these technologies to be part of long-term product roadmaps. In many cases, these investors want to keep their investments quiet for pro-competitive and pro-innovation reasons. For example, look to Apple's acquisition of companies, technology, and people in the lead-up to the launch of the original iPod. Most of the acquisitions were kept quiet to allow the company to launch the iPod without competitors having a chance to get a head start on responding, or copying, their strategic direction.

We believe that the proposed changes would make this kind of strategic investment far less appealing. Not only would this make it much harder for inventive, R&D-based startups to raise capital, but also make it less likely that they apply for patents, thus depriving them of the benefits patents can provide. At a time when the patent system has finally turned the corner on software patent quality and we're looking for new inventions to fuel the next technological wave, expanding attributable owner requirements to the patent application and grant stage is unnecessary and could do real harm to startups and investments in long term R&D.

Instead of creating new hurdles of today's inventors, the PTO should focus on increasing transparency requirements on existing patents. According to recent data, the patents used by patent trolls are generally in the last three years of their lives. These older patents are part of a group of overly-broad and weak patents that slipped through the PTO during the 1990s. Transparency in current patent applications would little to address the patents that trolls use most often to go after small businesses.

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The vast majority of startups filing patents today are exactly the kind of companies and patents we should want. The primary patent danger for small businesses and startups today are the patents which have already been granted.

Best Transparency Balance

For small businesses with and without patents, the best balance for transparency is a system closer to what Members of Congress have proposed in the legislation passed by the House of Representatives. In H.R. 3309, transparency in patent ownership is required when a lawsuit for patent infringement is filed. The owner of the patent must disclose to the USPTO, the court, and each adverse party the identity of the: assignee of the patent, any entity with the right to enforce the patent or with financial interest in the patent, and every ultimate parent entity.

If required before a patent has been issued and the property right conferred on its owner, the disclosure of attributable ownership is overly-burdensome on the prospective patentee and not outweighed by any perceived benefit.

Transparency requirements are aimed at those who would hide behind shell companies and misuse the patent system. Therefore, ACT proposes that such ownership disclosure occur at a reasonable time after the patent has been granted or when the patent is first used in litigation, whichever comes first. This would allow the benefits of transparency and help businesses battle patent trolls while not causing harm to the innovation economy.

The patent system is built around rewarding those who invest time and capital in building our innovation economy and allowing their breakthroughs to teach and inform others. As such, we must implement transparency in a way that furthers our goal of promoting invention and innovation without unintentionally harming those inventors.

Thank you for the opportunity to comment and we look forward to working with the USPTO on patent ownership transparency.

Sincerely,

A handwritten signature in black ink that reads "Morgan Reed".

Morgan Reed

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