



March 24, 2014

To: Michelle K. Lee, Esq.
Deputy Director, United States Patent & Trademark Office
Alexandria, VA 22313-1450

Comments of NVCA re Proposed Changes to Rules of Practice in Patent Cases

By public notice provided in Federal Register, Vol. 79, No. 16 dated January 24, 2014, the U.S. Patent & Trademark Office ("PTO") solicited public comments with respect to proposed changes in the agency's Rules of Practice, 37 CFR Part 1, related to the identification of the "attributable owner" of patents and patent applications. By this letter, the National Venture Capital Association (NVCA) responds to that solicitation.

NVCA is the primary voice of the venture capital industry. NVCA and its members represent more than 90 percent of all U.S. venture capital under management. For at least the past 25 years, venture capital investment and venture capital backed companies have accounted for the major portion of all new job creation in this country. Venture capitalists work closely with entrepreneurs to transform breakthrough ideas into emerging growth companies that drive U.S. job creation and economic growth. It is difficult to overstate the significance of this most dynamic sector of the U.S. economy.

All investing involves risk, and usually the more innovative the breakthrough, the greater the risk. The primary task of venture capital firms is balancing the projected gains from a successful investment against the potential risk of failure. The greater the risk, the greater must be the expected return.

For many investments, patents play a significant role in this analysis, but in different ways that depend on the company, its industry, the level of innovation and other factors. In making changes in the rules by which patents are procured and enforced, it is important to consider the impact that such changes may have on investment incentives and opportunities. Raising the cost of or risk inherent in investing will have a direct and negative impact on many types of investments.

NVCA can support the rule change, but only if certain aspects are clarified. In principle, NVCA does not oppose a requirement that a patent owner controlled by a parent entity identify that parent entity as part of the official record of the patent(s) in question. NVCA does, however, have some concerns with the wording of the rule as currently proposed and the potential impact of identification of venture capital investors. First, NVCA thinks the PTO should revise foundational definition of an "ultimate parent" to exclude equity investors owning less than 50% of the patent owner. Second, the rule should have a mechanism for petitioning the PTO for relief from the disclosure requirement for good cause shown. Third, we think that lenders who take an ownership interest in patents merely to secure indebtedness should not be treated as the ultimate owner, if they are the owner of record. The following points summarizes each of these points in order.

Venture capital investors should rarely if ever be considered an "ultimate parent" entity. As currently envisioned, the proposed change would require a patent applicant or patent owner to identify its "ultimate parent," which is defined generally to include any entity owning 50% or more of the voting and/or liquidation rights in a company. The way the rule is written now, this can be read to encompass all the members of a syndicated investment in a company by multiple venture capital firms, no matter how small their interest. Such an identification would clutter the record of a patent with a lot of useless information and would be an administrative burden on small companies.

The problem arises because the definition of an "ultimate parent" for purposes of the rule is based on 16 CFR § 801.1(a)(3), which is designed to capture, for purposes of merger enforcement, virtually any collaboration, joint venture or other business arrangement that might possibly have an impact on competition within a given product code. This breadth is not needed for purposes of the proposed rule change and would be both burdensome and in many cases would discourage the procurement of patents, even for companies that need them. Syndicates comprising multiple investors are common in the venture capital industry as a means for diversifying investment risk, and many of these syndicates are governed by side agreements that could arguably fall into the "joint venture" provisions of 16 CFR §801.1. Section 1.271(b) of proposed rule should be amended to make clear that no entity owning less than 50% of the patent owner should be considered an "ultimate parent" for purposes of this type of disclosure.

A venture capital firm that owns more than 50% of a company should be permitted to petition the PTO for relief from the disclosure requirement for good cause. Even if the new rule were modified to eliminate voting rights agreements and similar mechanisms among syndicated investors from triggering a disclosure requirement, there still may be situations in which one venture capital firm, often as a result of multiple rounds of financing at declining valuations, holds a 50% interest or more in a portfolio company. In some of these situations, there may be no reason for the patent owner or its investor to resist the simple disclosure of ownership interests. In other situations, however, there may be competitive reasons for not revealing to the public the identity of the venture firm that has invested in the company. Some venture-backed companies, for example, like to remain in "stealth mode" until they bring a product to market to avoid triggering a competitive response from a much larger competitor. To deal with such cases, the new rule should be modified to allow the patent owner to petition the PTO to waive the disclosure requirement for such an investor based on a representation that the patent owner does not intend to pursue claims for monetary damages or license revenues against any other entity. The waiver could be periodically renewable and could cease to apply in the event the patent owner acts overtly to pursue monetary claims or license revenues.

A security interest in a patent should not trigger a disclosure requirement. The proposed new rule, as written, appears to require disclosure of a lender as the owner of a patent merely because it has taken a security interest in the patent to secure repayment of indebtedness. The rule should be modified to eliminate this possibility, either expressly or by allowing the patent owner to petition the PTO for waiver of the disclosure requirement. Debt financing is a familiar and often used mechanism employed by venture backed companies for raising capital. It would be a serious impediment to raising debt capital if a secured lender were to be treated as the owner of record, particularly if there were situations in which courts were inclined to look to such entities for litigation costs.

We appreciate the opportunity to comment on the proposed rule change and will happily assist the PTO in discerning the significance of any modifications it may choose to make.

Sincerely,

A handwritten signature in cursive script that reads "Bobby Franklin".

Bobby Franklin President & CEO