SFIPLA

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Via Electronic Mail: AC90.comments@uspto.gov

Attn: James Engel, Senior Legal Adviser

Re: Changes to Require Identification of Attributable Owner (79 Fed. Reg. 4105–4121)

Dear Deputy Director Lee:

These comments are submitted on behalf of the San Francisco Intellectual Property Law Association (the "SFIPLA") to provide comments regarding the Notice of Proposed Rulemaking dated January 24, 2014, titled: Changes to Require Identification of Attributable Owner (the "Proposed Rules").

The SFIPLA is one of the oldest and largest intellectual property law associations in the western United States, and currently serves more than 500 active members. The SFIPLA represents intellectual property attorneys, patent agents, and other IP professionals.

The purpose of the SFIPLA is to educate its members and the public about developments in intellectual property law, to instill a high standard of ethics among members, and to foster a sense of community. These comments were prepared in this light with the assistance of the Patent Office Practice Committee of the SFIPLA.

These comments are intended to bring to the forefront several main problematic issues and their ramifications which would arise as a result of the promulgation of these new proposed "attributable owner" rules. [1]

The SFIPLA sympathizes with the USPTO and generally supports greater transparency in ownership. The ability to search pending applications and issued patents by owner would enable practitioners to conduct more focused searches and better enable practitioners to identify and advise their clients regarding third party patent rights.

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[1] 79 Fed. Reg. at 4105-06.

However, the Proposed Rules go too far in many respects. Chief among these are the following reasons:

1) The penalty of abandonment for failure to comply with, even for unintentional omission, is far too harsh.
2) The Proposed Rules are unclear and unduly burdensome.
3) The Proposed Rules will exact an unacceptable cost on small entities, patent agents and pro se inventors.
4) The Proposed Rules exceed the procedural rulemaking authority granted to the Office by Congress.

Accordingly, the SFIPLA urges reconsideration of the Proposed Rules.

A Mistake or Error, Even in the Absence of Proof of Good Faith, Should Not Result in a Loss of Rights

Failure to record patent ownership changes is often inadvertent. This should not lead to abandonment which, in our opinion, is an overly severe penalty.

The practice of patent law before the USPTO is unique. A typical practitioner manages hundreds of pending applications, each with deadlines for taking various actions and responding to communications from the USPTO. The failure to meet these deadlines can result in a loss of rights. Although many pending applications will have limited commercial impact, some will turn out to be incredibly valuable. This unique combination has made the practice of patent law before the USPTO one of the most challenging as well as one of the most difficult and expensive to insure.

The current rules of practice before the USPTO generally excuse unintentional mistakes, such as an unintentional failure to meet a deadline. See 37 CFR 1.137. The Proposed Rules, however, would permit correction of an error or mistake only with proof of good faith. While practitioners before the Office may be presumed to act in good faith, this increased standard would badly strain the practice of patent law before the USPTO by placing additional and unnecessary risk on practitioners.

Determination of "Attributable Owner" Is Unduly Burdensome on Practitioners

The proposed new rules impose burdensome investigation and reporting requirements during the life of an average four year pendency of a patent application.

The Proposed Rules define "attributable owner" to include: (1)the "ultimate parent entity as defined in 16 CFR 801.1(a)(3)," (2)"[a]n entity necessary to be joined in a lawsuit," and (3)"[a]ny entity that, directly or indirectly, creates or uses ... any ... arrangement ... with the purpose or effect of divesting such entity of attributable ownership of a patent or application..." Each of these categories of "attributable owner" requires complex legal and factual determinations that will impose a disproportionately heavy burden on practitioners before the USPTO. The proposed new rules would require numerous "attributable" owners' investigations and reports. If "attributable" owners' investigations and reporting were to be justified at all during pendency, it would be at the time of paying the issue fee when a patent application matures into an enforceable right.

First, to address the inclusion of "ultimate parent entity," the Proposed Rules rely upon the definition provided by 16 CFR 801.1(a)(3). This particular definition was promulgated by the Federal Trade Commission and is used in connection with the review of corporate acquisitions that exceed a threshold dollar value of $75.9 million. It defines the "ultimate parent entity" as "an entity which is not controlled by any other entity." The term "control" is then defined by 16 CFR 801.1(b), which also provides a number of examples of how this determination is made, including the following:

> A statutory limited partnership agreement provides as follows: The general partner "A" is entitled to 50 percent of the partnership profits, "B" is entitled to 40 percent of the profits and "C" is entitled to 10 percent of the profits. Upon dissolution, "B" is entitled to 75 percent of the partnership assets and "C" is entitled to 25 percent of those assets. All limited and general partners are entitled to vote on the following matters: the dissolution of the partnership, the transfer of assets not in the ordinary course of business, any change in the nature of the business, and the removal of the general partner. The interest of each partner is evidenced by an ownership certificate that is transferable under the terms of the partnership agreement and is subject to the Securities Act of 1933. For purposes of these rules, control of this partnership is determined by paragraph (1)(ii) of this section. Although partnership interests may be securities and have some voting rights attached to them, they do not entitle the owner of that interest to vote for a corporate "director" as required by §801.1(f)(1). Thus control of a partnership is not determined on the basis of either paragraph (1)(i) or (2) of this section. Consequently, "A" is deemed to control the partnership because of its right to 50 percent of the partnership's profits. "B" is also deemed to control the partnership because it is entitled to 75 percent of the partnership's assets upon dissolution.

In the context of corporate acquisitions exceeding the $75.9 million threshold, this type of complex factual and legal identification of ultimate parent entity may well be justified. There are, however, scarcely few patents or applications among the millions issued and pending that have a value anywhere near this amount. The SFIPLA respectfully submits that burdening practitioners with this determination for every patent and application is grossly disproportionate to the underlying transaction.

Second, the identification of "[a]n entity necessary to be joined in a lawsuit" is similarly complex for patents and applications that are subject to exclusive licensing agreements. The Proposed Rules cite *Alfred C. Mann Found. V. Cochlear Corp.*, 604 F.3d 1354, 1360-61 (Fed. Cir. 2010) and *Vaupel Textilmaschinen KG v. Meccanica EuroItalia SPA*, 944 F.2d 870, 875–76 (Fed. Cir. 1991) as guidance for determining when a party other than the owner would have standing to enforce. The Federal Circuit in these cases list multiple factors relevant to this determination and then proceed through pages of analysis before reaching any conclusions. This type of factual and legal analysis would unduly burden practitioners and provide little benefit, especially if the patent owner is identified through assignment records or otherwise.

Third, the final category of "attributable owner" includes "[a]ny entity that, directly or indirectly, creates or uses ... any ... arrangement ... with the purpose or effect of divesting such entity of attributable ownership of a patent or application..." This sweepingly broad definition would capture perfectly legitimate licensing arrangements, including, for example, an option for an exclusive license that is triggered by a licensee meeting certain commercial or financial targets. Moreover, to attempt to imagine every "arrangement" that could possibly result, "directly or indirectly" in a change of "attributable owner" would impose an impossible burden upon practitioners.

As a result of the complex legal determinations required, a Registered Patent Agent would risk charges of unauthorized practice of law for helping a client comply with the Proposed Rules. Small entities that rely on the use of patent agents would be unduly burdened. Likewise, a *pro se* inventor would be unable to comply without extensive legal knowledge.

The Burdensome Nature of the Proposed Rules Will Impose Undue Costs on Patentees

In addition to the fees for filing the newly required information, the USPTO should take into account the cost to obtain the required information. Each individual item defining an "attributable" owner would need to be investigated and monitored for change.

The proposed rules impose substantial economic costs upon many patent applicants who have no intent to participate in "frivolous" or "abusive" patent litigation. Even if there were no intent to litigate, excessive costs would be incurred during the term of any issued patent – for example, when the issue fee and maintenance fees are paid, and when a patent is involved in supplemental examination, ex parte reexamination, and a trial before the Patent and Trial and Appeal Board (PTAB). A targeted legislative approach is recommended to best serve the IP litigators and their clients.

For example, Japanese law denies effect to a license arrangement which shields the identity of an exclusive licensee: Only upon registration of such an exclusive license does the license achieve the status (senyo jisshiken) that includes the right to sue for patent infringement and obtain injunctive relief. The senyo jisshiken license is distinguished from an ordinary, nonexclusive license , the tsujo-jisshiken.

The Proposed Rules Exceed the USPTO's Limited Rulemaking Authority

The proposed pentalty[2] to abandon patents and patent applications by regulation exceeds the authority of the Office. Establishing by regulation a new requirement for patentability, or maintaining a patent, is beyond the "conduct of proceedings in the Office" and is inconsistent with the provision in 35 U.S. C. Further, abandonment determined in court, for failure to properly identity an "attributable' owner, is not a proceeding of the USPTO.

The USPTO has limited procedural rulemaking authority under 35 U.S.C. § 2(b)(2) to establish regulations "not inconsistent with law" which "govern the conduct of proceedings in the Office." *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335 (Fed. Cir. 2008); *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549–50 (Fed. Cir. 1996). The USPTO, however, does not have substantive rulemaking authority. Cooper Techs. at 1336; Merck & Co. at 1550. Any substantive rulemaking by the USPTO must, therefore, be based in a specific grant of power by Congress. See Merck & Co. at 1550 (citing *Chrysler Corp. v. Brown*, 441 U.S. 281, 302 (1979)). "A rule is substantive when it effects a change in existing law or policy which affects individual rights and obligations." *Cooper Techs.* at 1336 (quoting *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 927 (Fed. Cir. 1991)).

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[2] Section 1.273

The SFIPLA respectfully disagrees that the Proposed Rules are procedural, at least as they apply to non-ownership interests. The Proposed Rules are substantive, because they affect the rights and obligations of applicants and patent holders by requiring, under the penalty of abandonment, broad disclosure of non-ownership interests not reasonably related to any statutory provision. 35 U.S.C. § 261 grants certain benefits to applicants and patent holders who record assignments with the USPTO. Section 261, however, does not require the submission of assignments, let alone disclosure of non-ownership interests.

The Justifications for the Proposed Rule are not Persuasive

The justifications offered by the USPTO for the Proposed Rules are not persuasive enough to justify the burdensome legal investigations requested, particular as they apply to non-ownership interests. The USPTO states the Proposed Rules will facilitate examination and internal processes, as follows:

> (1) Ensure that a "power of attorney" is current in each application or proceeding before the Office;
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> (2) avoid potential conflicts of interest for Office personnel;
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> (3) determine the scope of prior art under the common ownership exception under 35 U.S.C. 102(b)(2)(C) and uncover instances of double patenting;
>
> (4) verify that the party making a request for a post-issuance proceeding is a proper party for the proceeding; and
>
> (5) ensure that the information the Office provides to the public concerning published applications and issued patents is accurate and not misleading.

First, only direct ownership of an application or patent is relevant to the maintenance of current powers of attorney. Disclosure of non-ownership interests, therefore, would not help the USPTO maintain accurate powers of attorney.

Second, while executive branch and independent agency employees have a duty under 18 U.S.C. § 208 to not participate in any matter in which they have a financial conflict of interest, the obligation rests on the employee to withdraw from the matter only once the employee receives knowledge of the conflict. See *United States v. Hedges*, 912 F.2d 1397, 1401–02 (11th Cir. 1990) ("[Section 208] . . . requires that the government official have knowledge of the conflicting financial interest."). If anything, Section 208 obligates the USPTO to take steps to ensure that its employees withdraw from matters once they become aware of a conflict, but it does not impose additional disclosure requirements on owners so that USPTO employees are made aware of more potential conflicts in the first place. This provision, therefore, does not provide a basis to impose additional obligations and penalties upon patent applicants and owners.

Third, only direct ownership of an application or patent is relevant to the determination of the scope of prior art under 35 U.S.C. § 102(b)(2)(C), which requires that the prior application was "owned by the same person or subject to an obligation of assignment to the same person." See also MPEP §

706.02(l)(2) ("The term 'commonly owned' is intended to mean . . . entirely or wholly owned."). Non-ownership interests are entirely irrelevant to this determination.

Fourth, the substantive law for post issuance proceedings requires the disclosure of the real party in interest. See 35 U.S.C. §§ 312(a)(2), 322(a)(2). Congress has considered what disclosure is necessary and has enacted this requirement into law. If Congress wishes to change the substantive law it may through legislation. See, e.g., S. 1720, 113th Cong. (2013); S. 1013, 113th Cong. (2013); H.R. 3309, 113th Cong. (2013). The USPTO, however, simply lacks authority to change substantive law directly applicable to disclosure requirements in post issuance proceedings absent further legislation by Congress.

Fifth and finally, the Notice argues that the rules are needed to "ensure that the information the Office provides to the public concerning published applications and issued patents is accurate and not misleading." If Congress believes that the assignment records are misleading, it may elect to change the substantive law applicable to these records. Ensuring that the information the USPTO provides is accurate does not provide the USPTO with independent authority to rewrite applicable substantive law.

Conclusion

While the SFIPLA supports, in principal, greater transparency of ownership interests, the SFIPLA respectfully submits that USPTO does not have the substantive authority to enact the proposed new rules requiring public disclosures identifying all "attributable" owners of patent applications. Moreover, these proposed new rules would impose significant administrative burdens and reporting costs on patent applicants and patentees, and present dire risks for noncompliance. This would affect the majority of patent owners who do not engage in "abusive" or "frivolous" litigation.

Congress and the courts have the needed authority and are in the best position to reform non-economically productive litigation practices.

Accordingly, the SFIPLA respectfully submits that the Proposed Rules would impose unnecessary risks and burdens on practitioners before the USTPO and likely exceed the USPTO's limited procedural rulemaking authority.

Sincerely,

San Francisco Intellectual Property Law Association

Heath Hoglund
President

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